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OUTLOOK

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Make Restaurants Great Again

It's fitting that Brinker International was the top-performing restaurant stock in 2024, rising some 200% this year to over $130 per share. What's noteworthy is Brinker operates Chili's, which is 92% company-owned in the U.S. and a casual dining brand to boot.

That's right, a company-owned, casual dining operation, a phrase you shan't not utter in the presence of a restaurant lender. Other company-owned operations had a banner year, too. In fact, nine of the top 10 performing restaurant stocks in 2024 were predominantly company-owned and four of them, including Brinker, were casual dining operators. Company-operated Sweetgreen and CAVA's shares were up triple digits, while Shake Shack, Dutch Bros, Texas Roadhouse, Cheesecake Factory and Kura Sushi had nice double digit gains in 2024. (See the top and bottom performers on page nine.)

Did the investors in these names come down with amnesia and forget asset lite was the "be all and end all" for restaurants? Don't they understand that asset-lite brands have lower CapEx and that frees up cash for share buybacks and dividends? That there's less risk in asset-lite brands because the dirty work of operations is farmed out to franchisees? Surely they ignored the potential for higher valuations in franchise platforms driven by historically low interest rates.

All of these asset-lite assumptions are now proving unreliable. Chili's is undergoing a fantastic renaissance. They're driving positive traffic the old-fashioned way, focusing on value and operations. Its "3 for Me" offer which includes chips and salsa, burger and fries and a soft drink, drove same stores a positive 14.1% in the recent quarter, with traffic up 6.5%.

Quite a different story at a franchised model known as Applebee's, a brand owned by the asset-lite and debt-heavy Dine Brands Global. Applebee's had 600 more domestic locations than Chili's 10 years ago. Today, that gap has been cut in half as Applebee's closes restaurants and doesn't replace them. If you'd bought stock in Brinker 10 years ago and reinvested the dividends, your total return was 192%. On the other hand, if you bought Dine Brands shares at the same time, you would have lost 62% of your investment. Critics of this example might argue Dine had success with refranchising for a number of years and that Brinker's gains have only come in the past year, as the success of the Chili's burger campaign took hold. True, but the negative returns at Dine over the past decade would have crushed the previous gains.

My take on this dichotomy between Applebee's and Chili's is this: When Applebee's adopted the asset-lite model and offloaded the operation to franchisees, it became harder for the brand and the franchisees to click operationally. Contrast that with Chili's, which bought back most of their franchisees and is totally on the hook for store-level sales and profits. Applebee's, on the other hand, has had to deal with countless franchisee workouts and bankruptcies. Less time to focus on operations.

Perhaps that's why Applebee's has misfired with promotions going back to the hand-cut steaks debacle in 2016. Or, why they beat to death the cheap drinks promo each time they need a sales pop. And, why did Applebee's wait until this past November to introduce a $9.99 Bacon Cheeseburger special when Chili's introduced their meal deal two years ago?

Refranchising and financial engineering is a mixed bag. As I pointed out in last February's Monitor, of the major brands that initiated refranchising schemes, only Taco Bell and Wendy's have more U.S. stores today than they had 10 years ago. McDonald's, KFC, Pizza Hut, Burger King, Jack in the Box, Hardee's, Carl's Jr., Denny's and yes, Applebee's— all big brands that refranchised with the benefit of wide-spread franchise lender support— saw unit counts decline over the past decade.

Let's celebrate the performance of company-owned operations this past year and hope more brands follow Chili's example with an operations-driven focus. Make restaurants great again!

—John Hamburger

Cadence Bank Closes on $225 Million Syndication for Popeye's Franchisee

Restaurant lender **Cadence Bank** recently closed on a $225 million syndication for **HZ Props RE LTD**, a propco of Popeyes franchisee **Z&H Foods** and related entities. Cadence Bank acted as administrative agent and lead arranger. **Synovus Bank** and **Wintrust Franchise Finance** were joint lead arrangers, and **Capital One**, **Pinnacle Financial Partners** and **CrossFirst Bank** were participants.

The syndication was a recapitalization of an existing 2018 facility, which covered 140 properties over 13 states. Z&H Foods is the largest Popeye's franchisee, with approximately 390 stores in 15 states. The franchisee started the business by purchasing their first six restaurants in 2010.

"It was a smooth transaction, and Cadence was very helpful in getting this done," said **Amin Dhanani**, who heads up HZ Props and is president of Z&H Foods. "I also think it is important that it was oversubscribed. I know a lot of restaurant owners are worried about the lenders wanting to lend. But, banks are wanting to do deals again."

"This provides the borrower with stable financing for the next five years, as well as sufficient capital to build and develop stores," said **Dan Holland**, Cadence's EVP and head of the restaurant and franchise finance group.

Vance Waldron, Cadence managing director and senior banker for the HZ relationship, added that "HZ Props has built a high-quality real estate portfolio over the last several years. The successful syndication really highlights Amin and his team's impressive track record in the Popeye's brand."

For more information, contact Dan Holland at daniel.holland@cadencebank.com, or at (404) 839-1956.

CrossFirst Bank Completes Wingstop Syndication; Annouces Merger with Busey Bank

CrossFirst Bank's Restaurant Finance Group recently led a $66 million syndication for Wingstop franchisee **VWS Restaurants, LLC**. VWS operates more than 60 Wingstop restaurants. **MUFG Bank** and **Cadence Bank** were participants in the club deal.

"This was an upsize of an existing club deal to support VWS's continued growth in the Wingstop brand," said CrossFirst Executive Director **Bobby Oliver**, who leads their restaurant finance group. "Our commitment to building and maintaining strong relationships is demonstrated by the trust we've developed with VWS, its principals, and outstanding management team. We look forward to a long-term partnership as the company continues to grow and expand."

Merger with Busey Bank Estimated to Close in the First Half of 2025

CrossFirst Bankshares, Inc. and First Busey Corporation, the holding company for **Busey Bank**, based in Champaign, Ill., recently announced their intent to merge, which is expected to close in the first half of 2025. The new entity will retain the Busey Bank name and management of the combined company will be a combination of Busey and CrossFirst executives.

The merger will create a premier full-service commercial bank, said Oliver, serving clients from 77 locations across 10 states with combined total assets of approximately $20 billion, $17 billion in total deposits, $15 billion in total loans and $13 billion in wealth assets under care. For more information, contact Bobby Oliver at 770-540-9733, or bobby.oliver@crossfirstbank.com.

C Squared Advisory Group Advises on Sale of Wings 'N More to Goode Partners

Boutique investment banking firm **C Squared Advisory Group** recently announced the sale of **Wings 'N More**, a multi-unit restaurant brand headquartered in College Station, Texas, to New York-based private equity firm, **Goode Partners**. The sale also included additional locations operated by the brand's largest licensee. C Squared served as the exclusive financial advisor to Wings 'N More on the transaction.

The transaction was supported by debt financing provided by **Gladstone Capital Corporation** and will help drive and accelerate Wings 'N More's growth and expansion.

Wings 'N More was founded in 1986 by former NFL football player and Texas A&M Hall of Fame center, **Mark Dennard**. During his time in the NFL, Dennard was introduced to the concept of "Buffalo-style" chicken wings. After retiring from football, he opened his first location in College Station and since that time Wings 'N More has steadily grown and developed a loyal following in the region.

"Mark had attempted to sell a couple of times," said **Carty Davis**, managing partner with C Squared, "and at one time had hired a generalist investment bank— they ran a process and were unsuccessful."

Enter C Squared a year ago. With **Brent Elsass**, C Squared partner and point person on the assignment, Davis flew out to Texas and "got a feel for the brand. We were immediately blown away by the quality of the product. And, the volumes were unbelievable…with Chick-fil-A-type lines at their prime hours. We just loved it."

It was time for the owner, Dennard, to retire, and C Squared ran the process. “We probably sent the book to 25 potential buyers, and we got strong interest from eight or nine groups. We asked four groups to come to College Station and make presentations. Ultimately, Goode Partners stepped up and elected to buy it.” The deal closed the in December.

Goode Partners founder and partner **David Oddi** “has investments in a number of restaurant chains,” Davis reported, and “was an early investor in Chuy’s. Chuy’s had a similar profile. David saw Wings ‘N More as an exact replica, based on what he did at Chuy’s. He was very focused on it, because he saw the potential.”

For C Squared, it was a difficult transaction, because there were multiple sellers. Despite that, “At the end of the deal everyone came away from this feeling pretty good,” said Elsass. “David brought in his operator from Chuy’s. The bones and the structure are great—it just needs to be polished up and standardized. And, as part of the transaction, Mark kept a piece of the company. For both Mark and David, that was important.”

For more information, contact Carty Davis at 910-528-1931, or at carty@c2advisorygroup.com.

Auspex Capital Facilitates the Acquisition of Wendy’s Restaurants for Clients

Investment banking firm **Auspex Capital** recently advised on the following buy-side transactions for Wendy’s franchisees:

• **Jai Restaurant Group**, owned and operated by long-time Wendy’s system veteran **Jhonny Mercado**, acquired two high-volume Wendy’s restaurants located in South Carolina from **Wendgusta**. This acquisition expands Jai’s portfolio from 11 to 13 Wendy’s locations, further strengthening its presence in the South Carolina market. Jai, in conjunction with various affiliates, now owns and operates 89 Wendy’s restaurants in the United States.

• **WenCharter MA**, a Wesley Hills, Mass.-based restaurant operating company owned and operated by the father-and-son team of **Alan and Trip Botsford**, has acquired two high-volume Wendy’s restaurants in Lowell and Lawrence, Mass. from **Twin Coast Enterprises, Inc**. This acquisition represents the second in what WenCharter expects to be a series of acquisitions as it looks to continue to grow its Wendy’s franchise in New England. WenCharter acquired its first restaurant from Twin Coast in July 2023.

For more information, contact Auspex Managing Director **Chris Kelleher** at ckelleher@auspexcapital.com or by phone at (562) 424-2455.

Unbridled Capital Advises on Sale of KFC Units

Investment banking firm **Unbridled Capital** recently closed on the sale of 11 KFC and KFC/Taco Bell restaurants in Kentucky and Tennessee for **Five Star LP**, for the late **Terry Rogers** and family. Private equity-backed **Value Foodservice**, an existing KFC franchisee, was the buyer.

“This was a successful transaction with a long-time franchisee who had a lot of stature in the system, and a successful private-equity backed franchisee who has had years in the KFC system, as well,” said **Rick Ormsby**, managing director of Unbridled Capital.

Because the deal required working with two different brands, “approvals took longer than usual. Multi-brand deals take a lot of communication and patience,” he added. “Sometimes, not all the time, multi-brand deals can take twice the amount of time and resources, and there are shifting dynamics” throughout the process.

“It was nice to see a PE-backed company come in and acquire more stores,” said Ormsby, “which could portend good things for 2025.”

For more information, contact Rick Ormsby at rick@unbridledcapital.com, or at 502-338-0162.

Hui, Arrowsmith Named Partners at National Franchise Sales

National Franchise Sales (NFS), an M&A advisory and brokerage firm for franchise business transactions, recently announced that **Ellen Hui** and **Michael Arrowsmith** have both been promoted to partner.

Hui, a former Popeye’s franchisee prior to joining NFS a decade ago, has “deep franchise knowledge and her ability to close even the most complex merger and acquisition deals have made her an invaluable asset to clients nationwide,” said **Jerry Thissen**, NFS president.

Arrowsmith has more than 25 years of experience in franchise sales, development, and business acquisition with franchisors such as Captain D’s and HOA Brands. “His strategic guidance has been instrumental in expanding NFS’s presence in the franchise M&A sector,” Thissen said.

National Franchise Sales specializes in the sale, acquisition, asset restructuring and refranchising of existing restaurants and restaurant brands. You can reach Ellen Hui at eh@nationalfranchisesales.com, or at 949-428-0498. Reach Michael Arrowsmith at ma@nationalfranchisesales.com, or at (949) 428-0491.

TD Bank Restaurant Survey Shows Positivity Around Value Meals, AI and more

"My biggest takeaway? How franchisees felt about value meals," said **Mark Wasilefsky**, head of franchise finance with **TD Bank**. TD Bank conducted a survey of restaurant operators and financial professionals at the Restaurant Finance & Development Conference in November, and that piece of information in the survey results stood out to him.

"There's a lot of coverage out there about value meals and how difficult they are operationally," he said. But the survey found that 60% of respondents were OK with them, because increased traffic offset the compression value meals had on margins—a good thing, he added, because value meals aren't going anywhere anytime soon.

About 77% of survey respondents ranked mobile ordering as the top revenue driver for their business in 2025. Plus 59% believe mobile apps that are easy to use for the consumer will have the greatest impact on operations over the next year.

The survey revealed restaurant operators are enthused about the increased use of AI to grow that. "This business is becoming more sophisticated," Wasilefsky said, "and AI continues to personalize mobile ordering. And it's moving beyond that, even. It is a data management tool: AI was going to help improve efficiencies, better target the menu boards, upsell at the kiosks, better predict trends, and more. It's fascinating."

He said that, not surprisingly, optimism around M&A is up, due to lower interest rates and increased store closures. "If people want to sell, the ones that missed the boat in 2021—we won't see those valuations again—but those who waited out 2024 and focused on their operations, they'll see better multiples."

For more information, contact Mark Wasilefsky at 860-652-6550, or by email at mark.wasilefsky@td.com.

King Joins Kroll's Transaction Advisory Services Group

Paddy King recently joined financial advisory firm **Kroll**'s Transaction Advisory Services (TAS) Group as Managing Director. Prior to joining the firm, King led the Retail and Restaurant Industry Team at RSM U.S. and was previously a senior member of both EY and Deloitte's M&A Transaction Services groups.

One reason he joined Kroll was its "entrepreneurial spirit."

"Kroll has a great legacy in the restaurant industry across the firm, and is absolutely market-leading in certain areas," he said. "Be it Josh Benn, Vijay Sampath and the investment banking team, which is one of the most active middle-market restaurant M&A advisors, or our transaction opinions and valuations teams, it's an incredibly entrepreneurial environment. Having spent the majority of my career in large accounting firms, it's a refreshing change."

Their clients are private equity funds, strategic investors and lenders in the middle market, and he's seeing that group demanding more restaurant-specific expertise as of late. "There is a great opportunity for me to bring an increased focus on restaurant and broader multi-unit to the transaction advisory services team."

He also is heading up the Southeast office, based in Atlanta, as the firm looks to increase its reach in that area, "specifically in Atlanta where we have a large valuation practice but historically a limited TAS presence, so I'll be building out and leading a team here. That opportunity was a big pull," he said.

Within the TAS team, they offer due diligence and related services, such as financial diligence/quality of earnings; tax diligence and structuring; IT, cyber and operations diligence and data analytics, with the intention to provide as much intelligence as possible to help the stakeholders of a transaction make informed decisions.

He used the analogy of buying a house. "Just as a home inspector evaluates the condition of the house—checking for hidden structural issues, plumbing problems or electrical risks and highlights potential costs or risks that might not be immediately visible to the buyer—a quality-of-earnings provider assesses the financial health of a business, identifying irregularities, one-time adjustments or trends that could affect the true earnings potential of the business, and ensuring that the buyer understands potential additional cash requirements post-transaction," he explained.

King's transactional background includes working with companies of all sizes, from a 2,000-unit, multi-brand operator to franchisors of all sizes. "I worked a lot with Roark Capital on various acquisitions down to fast-growing brands and clients consolidating mom-and-pop franchisees in various systems," he said.

Looking ahead, he sees 2025 as a more active year in the M&A space. "Financial sponsors are back to the table, and that has been one of the biggest drivers of the depressed market: PE has been more quiet," he stated. Today, "there's a significant amount of dry powder to be deployed."

You can reach him at paddy.king@kroll.com, or at 407-280-5902.

Northmarq Releases News on Recent Restaurant Property Closings

Commerical real estate firm **Northmarq**'s restaurant group, headed up by **Matt Lipson** and **Mike Philbin**, recently announced the following closings of restaurant property sales.

• **Starbucks—Lakewood, Colo.:** Northmarq represented the buyer on the property, which they acquired it for $1.77 million, at a 5.50% cap rate. It had an undermarket rent, Lipson reported, with a recently extended 10-year term, plus strong performance per Placer, and lower rent than surrounding Starbucks. "It is an under-market lease for them," he said. "They don't report sales, but their Placer is excellent—top 75 of the country." (Placer AI is a location intelligence software.)

"When they originally developed, Starbucks got a good deal," Lipson added. "There was a 10-year lease extension and the landlord didn't get a bump in rent in exchange for that. It really works out for the buyer."

• **Bob Evans – Circleville, Ohio:** Northmarq represented the seller, and the property sold for approximately $3.51 million at a 7.25% cap rate.

"It's a really good retail market—in the 97th percentile on Placer. It's a strong store for Bob Evans, and Bob Evans balance sheets are looking pretty good these days, too," he said. "They've tightened up their expenses and there has been an incremental rise in sales every year. And the location is in a heavy retail corridor near a Walmart Supercenter. The seller did well."

• **Church's Chicken—Dolomite, Ala.:** Lipson and Philbin represented the seller, and sold the property for approximately $1.15 million at a 6.55% cap rate.

"This was a 15-year, corporate sale/leaseback, The buyer loved the low rent, at a signalized intersection with good retail around it," said Lipson. "We're representing the franchisor, and selling their corporate stores with sale/leasebacks. They are selling the real estate and putting money back in the sites. It's a great way for them to transition the brand as Church's Texas Chicken."

He said brand AUVs are up, and "they will start attracting strong franchisees. They haven't been very loud about it, but I think you will suddenly see them along the same lines as some of the other legacy chicken brands. They have a great management team in place."

• **Red Lobster—Indianapolis, Ind.:** Northmarq represented both the buyer and seller in the sale of a Red Lobster at $1.35 million and no cap rate, as the property was vacant.

"This was a very difficult deal that ended up being a short sale to the adjacent neighboring car dealership," said Lipson. "We struggled to find traction among other casual dining tenants—that landscape is weak right now. This was one of the sites that was terminated in the bankruptcy proceedings, and they handed back the keys."

For more information, contact Matt Lipson at mlipson@northmarq.com, or at (503) 307-0382.

Where Are They Now: Homuth Helping to Build Small-Town Business Area

After 25 years of financing multi-unit restaurant companies nationally with names like GE Capital, Wells Fargo, CapitalOne and more, **Tommi Homuth** found a new passion 11 years ago when she became a partner in her husband's residential and commercial real estate business, Tracy Real Estate, in Denison, Texas.

Homuth still has a foot in business development as a member of Denison Main Street Group, an organization devoted to the economic restructuring of Denison's downtown, which boasts the largest Main Street in Texas. She's so involved in bringing business to the city of 30,000, she recently received an award from the city, recognizing her efforts.

"This is just a cute and charming town," she said. "It used to be a retirement capital, but now young families are coming in." Business investments in the area—like a new $30 billion Texas Instruments plant nine miles south of town, and a Margaritaville Resort on the town's Preston Lake—is giving the area a boost, bringing in new residents and tourists alike. More retail and restaurant spots are popping up, some receiving a destination grant from the Denison's Economic Development Office.

"Our city hall's motto is 'how do we get to yes?,'" Homuth said, with a laugh. "It's just a business-friendly community."

Homuth and husband Tracy , in addition to being realtors in the area, have owned their own commercial space on the historic Main Street there: One is 6,000 square feet with four lofts upstairs. It was once a successful food court with five kitchens and a tap room, "and then Covid hit and it didn't fully recover," she said. They sold it to a friend, and now the space is available to lease, fully equipped, with the owners willing to help with renovations.

"We are interested in bringing new restaurants to the area and helping them prosper," Homuth reported. For more information, contact her at tommisue@tracyrealty.net.

At the recent ICR Conference in Orlando, it was apparent that sports bar chains are making a big comeback in the U.S. **Twin Hospitality**, the parent of 114-unit Twin Peaks, will be spun off as a public company from **Fat Brands** on January 27 and begin trading on NASDAQ the following day. Twin Peaks features 29-degree draft beer, 60 to 80 large-format televisions and a scratch-kitchen menu. It has over 100 development commitments from franchisees and sees big opportunity in conversions of existing restaurants. CEO **Joe Hummel** built and opened 15 stores from 2012 to 2016 as a franchisee.

Another company presenting and meeting with investors at ICR Orlando was **Tom's Watch Bar**, described by its CEO **Brooks Schaden** as a "Super Sports Bar." Tom's stores, which now total 13, generate annual revenue of $4 million to $15 million per store ,depending on the site. Schaden reported eye-popping margins of 26% overall, based on a 50% alcohol mix. Tom's partners with local sports teams to promote live "watch parties." The founders of Tom's include former McDonald's exec Tom Ryan, Rick Schaden, Brooks Schaden, and Shannon McNiel.

That was former **Papa Johns** CEO **Nigel Travis** watching new CEO **Todd Penagor's** presentation at the recent ICR conference in Orlando. Penagor, the former Wendy's CEO, took the top job at the pizza brand in August after **Rob Lynch** bolted for Shake Shake. Penagor said the entire Papa John's system has his cell phone number in case they have a comment or suggestion. He also said he was reinstating the local marketing co-ops for franchisees that were disbanded during Lynch's tenure in favor of more national ad spending.

Former **Buffalo Wild Wings** CEO **Sally Smith** is a board member of **Hormel**, the meat processor and food company that recently inked a licensing deal with **Michael McDermott**, the Minneapolis restaurateur who plans to relaunch the **Chi-Chi's Mexican Restaurant** concept later this year. McDermott is the son of Chi-Chi's founder Marno McDermott.

Having developed software to control food and labor costs, track drive-thru times and reduce thefts, **Taco Bell** franchisees, **Lee and Jeff Engler**, formed a tech company called B-50 in 2001 targeting fellow franchisees as customers. The name was changed to **Delaget** shortly thereafter, and institutional capital was brought in and CEO Jason Tober took over in 2015. Now comes restaurant technology giant **PAR Technology** acquiring Delaget in late December for $132 million in PAR shares.

At the recent Restaurant Finance & Development Conference in Las Vegas, **Pop Up Bagels** founder **Adam Goldberg** described how he first attracted capital to his brand, "My favorite thing I did when we had our first store in New York and we had a 150-to-200 person line at any given time, I would set up a little table for two directly next to the door where the line is and I would have all my meetings there so that as we're talking they are being bumped into and they can see the Uber Blacks pulling up and people getting in and out to buy bagels. I didn't have any meetings at anyone's offices, but they sure saw what our store looked like and they saw what our vibe was and I think that's the most important thing to get in it and make them see why things are crazy."

Gladstone Capital, a Business Development Company (BDC) that makes loans to middle-market companies, has made three restaurant-related loans—: $31.4 milion in secured first-lien debt to Utah-based **Cafe Zupas**; $20 million to Tucson-based **Eegee's**; and $10.1 million to Portland-based **Salt & Straw.**

When former President Jimmy Carter died last month, **TAGeX Brands** Founder **Neal Sherman** was reminded of his time working for the Carter Administration in 1980 as a White House intern, which he enjoyed. He especially liked working with Hamilton Jordan, Carter's Chief of Staff at the time. (This reporter has seen a photo of Sherman shaking hands with Carter during that time, as well.)

STATS AND QUOTES

WALL STREET'S TOP STOCK PICKS FOR 2025	
Lauren Silberman **Deutsche Bank**	Silberman says **Starbucks** (SBUX) "is in the early innings of a turnaround and sees higher traffic due to "better marketing, operations and innovation."
Jeffrey Bernstein **Barclays**	Bernstein recently upgraded **Shake Shack** (SHAK) and **Dutch Bros** (BROS), citing new leadership at both, which "brings new ideas and operating efficiencies, while still in outsized growth mode...with high-teens to low-20%'s EBITDA growth."
Dennis Geiger **UBS**	Geiger says **Domino's** (DPZ) willl "accelerate U.S. same store sales and continue taking market share of pizza and broader QSR."
Brian Bittner **Oppenheimer**	Bittner sees a "ketch-up" trade unfolding for **YUM Brands** (YUM) with a same store sales rebound in the global KFC business and continued strength in Taco Bell.
Logan Reich **RBC Capital Markets**	Reich sees **Chipotle's** (CMG) shares continuing to outperform in 2025 based on "operational improvements driving faster speed of service and potential upsides to consensus margin and unit-growth estimates."
Andrew Charles **TD Cowen**	Charles prefers fast casual over QSR and has Buy ratings on seven fast casual names—**Dutch Bros** (BROS), **CAVA** (CAVA) **Shake Shack** (SHAK), **Sweetgreen** (SG), **Wingstop** (WING), **Starbucks** (SBUX) and **Chipotle** (CMG).
David Palmer **Evercore ISI**	Palmer picks **Darden** (DRI) and **McDonald's** (MCD) "due to confidence in accelerating same store sales growth at reasonable valuations."
Nick Setyan **Wedbush**	Setyan added **Wingstop** (WING) to the firm's Best Ideas and said the company is well-positioned to deliver mid-single digit same store sales growth in 2025.

INTEREST RATES (%)				
	1/14/25	**Last Month**	**A Year Ago**	**Trend**
Fed Funds Rate	4.50	4.75	5.50	↓
AMERIBOR Rate *	4.42	4.67	5.42	↓
30-Day SOFR**	4.29	4.60	5.32	↓
90-Day SOFR**	4.29	4.60	5.32	↓
1-Year Treasury	4.22	4.24	4.66	↓
5-Year Treasury	4.60	4.25	3.83	↑
10-Year Treasury	4.79	4.40	3.95	↑
30-Year Treasury	4.98	4.61	4.20	↑
Prime Rate	7.50	7.75	8.50	↓

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

**Secured Overnight Financing Rate

JP Morgan CEO Jamie Dimon speaking to CBS News reporter Leslie Stahl: "Our GDP per person used to be roughly equivalent to Europe. Now its 30% higher. And that's innovation. It's growth. It's business. It's capital investment. It's all these various things that we do. Jobs are plentiful. Wages are finally going up on the low end. Stock prices are up. Home prices are up. Businesses are making money. But, I would put two real buts in there. A lot of it is fueled by fiscal and monetary stimulus, which drives inflation a little bit. And, I think the geopolitics is very complicated."

Economist John Cochrane is a Senior Fellow at the Hoover Institution. In remarks prepared for the 2025 American Economic Association annual meetings, he discussed inflation: "In a war, governments spend like crazy. Central banks monetize debt, and hold interest rates down. Inflation predictably breaks out, creating a Lucas-Stokey state-contingent default. Holders of outstanding bonds pay for a lot of the war spending. That's exactly what happened. The primary deficit touched 25% of GDP. Government debt in private hands rose $5 trillion during Covid, and another $4 trillion since. The Fed monetized $3 trillion of that debt, and kept interest rates at zero for an unprecedented year even as inflation surged."

First Horizon Bank's Senior Economist Sophia Kearney-Lederman provided the following remarks about inflation in early January to the International Factoring Association: "2025 is likely to be another bumpy year of even slower progress on the inflation front. At the December meeting, the Fed revised its inflation forecasts higher for 2025, 2026 and 2027, reflecting the slightly higher-than-expected inflation data recently. The Fed median projection for PCE inflation in 2025 is 2.5%, a tenth higher than in 2024. The core PCE median projection is 2.5% in 2025, three-tenths lower than in 2024. We expect inflation will flare up a little bit more than the Fed does in 2025, possibly to 3.0% year-on-year, before starting to move back toward 2.0% in 2026."

Factors That Will Impact the Performance of the Overall Stock Market and Restaurant Stocks in 2025

By almost any quantitative measure, the stock market isn't cheap. After posting back-to-back 24% and 23% annual gains in 2023 and 2024, respectively, the S&P 500 trades at about 21.5x projected 2025 earnings, well above its 16.4x average over the last 25 years and close to the P/E multiple peaks in the spring of 2000 and in late 2020, according to FactSet data. Furthermore, market gains over the last two years were due to multiple expansion (e.g. investor optimism versus tangible earnings growth). S&P 500 aggregate earnings increased only about 2% in 2023 and 10% in 2024. Analysts forecast 13% to 14% jumps in S&P 500 profits in both 2025 and 2026.

High valuations by themselves generally do not end bull markets. Most of the time, such ebullient periods draw to a close because of inflation, which in turn causes interest rates to move higher. Neither condition is in place today: The inflation rate is flat-to-trending-slightly downward after CPI growth fell sharply through much of 2023 and the first half of 2024, though reaching the Fed's 2% annual inflation target is not a sure bet. The 10-year Treasury yield of about 4.55%, while up from the Goldilocks days of 2021 (~1.5% yields) and up around 100 basis points just since mid-September, is still historically low. Furthermore, investment grade and high-yield bond yield spreads over Treasuries are at or near 25-year lows.

There are two other constructive factors: 1. Bull markets tend to last a long time, 46 months on average, per JP Morgan, and the current bull market has been running for only about 27 months. Moreover, the median aggregate return during bull markets is about 110%, about twice the gain of the S&P 500 since the lows of October 2022. 2. Bullish observers reiterate that innovation led by the rise in AI is driving profit growth in businesses and that AI represents the fourth industrial revolution (mechanization, electrification, and digitization are the first three), which will dramatically improve the way people live and work.

While it seems easy to theorize such soaring rhetoric overstates AI's potential, the effect could be enormous. Aggregate AI-fueled capital spending by Microsoft, Meta, Alphabet and Amazon totaled $170 billion over the first three quarters of 2024, up a remarkable 56% from the same period in 2023. Moreover, IDC, the widely followed market intelligence firm, expects AI to increase the world's aggregate economic output through 2030 by $20 trillion. To put that figure into perspective, the world's 2024 GDP was around $104 trillion, per Trading Economics.

What could go wrong in 2025?

President-elect Trump's aggressive tariff threats could become policy instead of opening negotiations that market bulls believe they are. High tariff levels could spark inflation and slow the economy. Furthermore, it is not difficult to imagine U.S. trading partners' imposing retaliatory tariffs which could further pressure the economy.

In addition, investors should factor in the generally optimistic nature of analysts who issue earnings projections. For example, at the start of 2024, the consensus earnings forecast for the S&P 500 was in the neighborhood of $243. Actual 2024 earnings are now expected to be closer to $237. So, it's possible the "true" forward P/E of the stock market is even higher than the fairly lofty 21.5x quoted above, implying that realizing attractive returns in 2025 could prove challenging.

On the other hand, the new administration also has plans to reduce regulations across many industries and cut corporate and perhaps personal taxes. Successfully implementing these policies would boost the economy. Of course, a risk (perhaps an inevitability) is these initiatives could boost inflation, possibly impelling the Fed not only to cease cutting interest rates, but to possibly contemplate increasing them. Any such thoughts would likely not be well received by Trump.

What is a best-guess scenario for 2025?

Growth stocks have dramatically outperformed value stocks over the last 10 years. It's possible this trend will reverse in 2025, but making such a call has little foundation. Such a reversal would seem to hinge on an economic slowdown or dislocation in 2025, perhaps due to the policies of the incoming administration. In my view, not enough data exists to make such a forecast, particularly given the robust current economy (3.1% annualized GDP growth in 3Q 2024).

As a group, restaurant stocks are considered value stocks, and the S&P 500 Restaurants Sub Industry Index notably underperformed the stock market in 2024. The group may continue to post returns in 2025 below that of the overall stock market. However, several restaurant stocks, including Shake Shack Inc. (SHAK), CAVA Group, Inc. (CAVA), and Sweetgreen, Inc. (SG), are some of the best-performing and most highly valued (enterprise value-to-revenue multiples of about 5x for SHAK and SG, and more than twice that for CAVA) growth stocks. It would, of course, be preferable for investors if these stocks were more conservatively valued; but, unless the economy were to stumble, their stock prices do not seem poised to reverse lower. High-valuation multiples alone have not proven to be obstacles that strong operating results and persistent investor optimism cannot overcome.

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

MEET THE RESTAURANT STOCKS THAT OUTPERFORMED IN 2024			
Company/Symbol	**12/31/24 Price**	**% Change**	**Commentary**
Brinker International (EAT)	$132.29	+206%	When the history of the casual dining business is written, there will be a chapter on the $10.99 burger special that sparked its renaissance.
Sweetgreen (SG)	$32.06	+184%	Automation and new-unit growth (10+ percent) is attracting investors. Now, if only Sweetgreen could make a buck.
CAVA Group, Inc. (CAVA)	$112.80	+162%	The "next Chipotle" is reporting Chipotle-style same store sales gains and high store-level margins.
Shake Shack (SHAK)	$129.80	+75%	300 basis points of expanding margins and free chicken sandwiches on Sundays fired up the bulls.
Dutch Bros (BROS)	$52.38	+65%	BROS is one of the few unit growth stories (160 new ones in 2025) and that's why it is valued at 40x 2025 EBITDA.
Texas Roadhouse (TXRH)	$180.43	+48%	Value is still the marching order and that's doable when your average unit volume is $8 million per store.
Cheesecake Factory (CAKE)	$47.44	+35%	At the flagship brand, fewer customers and higher menu prices keep the bears at bay, while the new concepts find their footing.
Chipotle (CMG)	$60.30	+32%	CMG's food cost percentage, some 300 basis points below pre-Covid, supports one theory that there's less protein in the bowls and burritos.
El Pollo Loco (LOCO)	$11.54	+31%	A new generation of investors thinks there's a national expansion play here. But, as Roger Daltry once sang, "Won't be fooled again."
Kura Sushi (KRUS)	$90.58	+19%	Sushi represents a huge opportunity in the U.S. With only 70 locations and plenty of capital, the company is targeting 20% unit growth.
THESE ARE YOUR 2024 RESTAURANT STOCK UNDEREPERFORMERS			
Pinstripes (PNST)	$.40	-96%	The next time someone suggests investing in a restaurant company that merges with a SPAC with no cash, run away.
Noodles (NDLS)	$.58	-82%	Noodles was a great year-end tax loss strategy for most of its shareholders. Meanwhile, management wants to improve operations.
Bloomin' Brands (BLMN)	$12.21	-57%	The big-shot former Darden activist, Starboard Value, bought 9.7% of Bloomin' in 2023 with plans to enhance shareholder value. Oops!
Red Robin (RRGB)	$5.49	-56%	Successful investor James Pappas sees something in Red Robin. Hopefully, more customers will see something, too—and soon.
The One Group (STKS)	$2.90	-53%	Investors agree the acquisition of Benihana is a good, long-term investment.
Jack in the Box (JACK)	$41.64	-49%	Investors fear the industry-wide $5.00 meal deal marathon will bury Jack in the Box, while others see Del Taco as the anchor.
Papa John's (PZZA)	$41.07	-46%	When Domino's catches a cold because of lackluster consumer spending, Papa Johns catches pneumonia.
Dave & Buster's (PLAY)	$29.19	-46%	The interim CEO told an ICR audience that previous management was "so focused on strategic initiatives they forgot about the business."
Denny's (DENN)	$6.05	-44%	Denny's announces the Keke's deal in 2022, and the stock loses half of its value. Maybe it wasn't such a great idea after all.
Portillo's (PTLO)	$9.40	-41%	One of the restaurant industry's "big box" concepts, investors don't buy the 600-unit TAM (total addressable market).

Finding the Right Long-Term Lender

One of the biggest decisions you'll make as a restaurant owner is your choice of a bank. I have touted the value of investors and equity for years, but, the real source of funding a restaurant is your corporate bank. If you are a large multi-unit operator of a major franchise concept, you won't have to worry about lenders because they will find you. But for early stage franchisees who are just getting into a franchise and people who are looking to grow their own concept, this isn't always the case.

What I have seen over the years as both a customer and bank director is that banks have personalities. One of the first questions I ask a banker is "tell me about your boxes," which means what kinds of businesses and loans do you like? Some banks prefer real estate. These loans are known as Commercial Real Estate (CRE) loans. Others like more traditional commercial loans where they are secured by current assets such as receivables or inventory. Some lenders like to do fixed assets, such as property and equipment; some are cash-flow lenders.

The first thing is to ensure you are talking to a lender who has actually financed restaurants. Some banks will say they are agnostic and will fund anything that is good credit. While that may be true, if they haven't done restaurants before they won't just jump into it unless you are a major credit or have a previous non-restaurant relationship with the bank.

Here are some steps to finding a bank:

1. Make a list of the banks you actually know. If you are developing an early stage concept, you want to look at lenders in your geographic area that understand the marketplace and may know your concept.

2. Make sure you are looking at a lender that has done multi-unit retail, not necessarily restaurants, but something that has more of a cash flow model versus fixed assets. Most banks like manufacturing because it has receivables and inventory, all of which they can convert to pay off the loan. For restaurants, if it doesn't work out they have FFE (furniture, fixtures and equipment), but not much else.

3. Ask what restaurants they have previously funded. If you are at an intermediate level (five or 10 restaurants), look at the list of national lenders who attended the last Restaurant Finance & Development Conference. Many lenders may only lend to the top 10 or 15 concepts and only for operators who have a minimum of 10 stores. This is not an uncommon box that national lenders like, but there are a number of groups that will lend to early stage and consider small chains. Find a lender that fits your profile.

4. Look to see if the bank can put you in the SBA pipeline. An SBA loan is a great way to get started. You will want to work with a bank that is a certified or preferred lender with a robust SBA group, so they can get quick approval. You don't want your local community bank that does a couple of SBA loans a year unless you have a strong relationship with them.

5. Make sure the lender has the capacity to grow with you. I know as a restaurant owner myself, we have had lenders interested in one project but not necessarily a second and third.

6. See what other services, particularly treasury, cash management, and credit cards, the bank can offer. This is very important for a restaurant. Also, see if they offer unique services such as a strong employee-benefits group.

7. Find out how the bank treats problematic situations. For example, when someone runs into an economic issue, how do they treat it? Do they have the flexibility to work it out?

8. Once you find a bank, be sure it has a loan officer who considers you a valuable customer and wants to help you grow. You can always look at your bank as your "overall" bank, not just for your business but your personal wealth management. Banks like to tie it all together for a robust relationship.

There are alternatives as well with non-banks, such as leasing and subordinated debt and unitranche (combining two or more loans into a blended product) financing. But I like to start with a core bank because you will get the best rates there. So begin with your personal bank to see what kind of products it has, whether variable or fixed rates or a hedge. Another option is the development line of credit (DLOC), so you know you have funding to grow more stores.

In general, the key element is to find someone that fits your business style and really wants you as a long-term customer. There are always new sources coming into the space, so keep researching the new players. Good luck and when you find a bank that fits, hold on to them.

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The macro winds are blowing fairly hard, as interest rates firm up, including mortgage rates once again well over 7%. The higher rates no doubt have to do with monthly U.S. debt issuance approaching $1 trillion, necessary to re-issue maturing debt, plus financing the current deficit. Be aware that on top of the $1.8 trillion deficit for the fiscal year ending September 30, the first three months of the new fiscal year produced a deficit of $753 billion, up 62% year-to-year.

So, with President Trump out to lower taxes and do whatever it takes to stimulate the economy (and recreate "the greatest economy ever"), at best the benefits will not be immediate. This year's deficit points toward $3 trillion and the debt will approach $39 trillion. Elon Musk has already backed off his promise to cut $2 trillion of spending, saying that $1 trillion would be impressive over an unspecified number of years. In my opinion this is all a pipedream. The debt cannot be "paid back." It can only be diluted away by depreciating the dollar with more inflation. The greater the debt burden, the more difficult for the economy to grow productively. All that said, we should be grateful always that we (still) live in the greatest country on earth.

In the just-concluded holiday season, not much current information is provided by public restaurant and franchise companies. Darden, clearly among the "Best of Breed" full-service restaurant operators, reported its quarter ending November 30, including a conference call on December 16. Its relatively current financial disclosure, as well as the conference call commentary and "body language," are about as good as we can do in terms of industry feedback.

In the quarter ending November 30, Black Box Intelligence, a company providing data, benchmarking, and insights to the restaurant industry, showed industry same store sales up by 1%, while guest counts decreased 1.8%. Darden's outperformed, with overall same store sales up 2.4% with pricing up about 2.9%, so guest counts were almost flat at a negative 0.4%.

Same store sales were positive at three of their four segments, with their four largest brands, Olive Garden (up 2.0%, on top of 4.1% last year), Longhorn (up 7.5%, on top of 4.9%), Yard House and Cheddar's also positive. The fine dining segment—Capital Grille, Season's 52, Eddie V's and Bahama Breeze—was down 5.8%, 3.3% adjusted for holidays and hurricanes, but improved from a negative 6.0% in the first quarter.

Olive Garden's updated menu is re-offering fan favorites at compelling price points. Longhorn's impressive 4%-plus traffic is a testament to the price/value and "perfect grilling," as well as their dining experience. Cheddar's is taking advantage of Darden's purchasing power to offer especially compelling LTOs, including a Texas T-Bone for $21.49. While neither the recently purchased Ruth's Chris or Chuy's is reporting their same store sales, both are expected to benefit from Darden's comprehensive in-house research and IT effort, which includes real-time analytics.

In terms of line expense items: cost of goods sold was 80 basis points lower. Labor was 20 basis points better, in spite of 3.7% labor inflation. Marketing was 30 basis points higher, with media for the "never ending pasta" called out as that promotion was extended. Restaurant-level EBITDA at 19.5% was 70 basis points better than last year. Adjusted G&A was a negligible 10 basis points higher.

The Q&A from Wall Street analysts confirmed that aggressive value offerings are necessary to maintain traffic, as indicated by extended time and higher media spending relative to the pasta promotion at Olive Garden. Sounds like most Darden brands, aside from Longhorn, are going to see more marketing support, so competitors should take that under consideration. In terms of cost inflation, the total in the current year is looking like about 2.5%. It was closer to 2.0% in the first half and will perhaps be closer to 3.0% in the second. The cost of proteins (beef, chicken, fish) in total are modestly higher, while the labor cost increase is relatively constant "in the high 3's." Though there was some discussion about the potential from working with Uber Direct, it does not sound like takeout, delivery, pickup or the public's usage of weight control drugs will move the total needle by much. For Darden, at least, the focus continues to be the in-store dining experience.

A comment during the conference call is worth pointing out: "Research shows that customers for the casual brands are feeling a little better...we're actually seeing optimism in our restaurants but we're not seeing as much of an increase in visits from consumers that are above that."

The takeaway: Darden Restaurants continues to be a formidable competitor. Their attention to operating detail, combined with purchasing, marketing, hiring, training and motivational "scale," is without peer, as demonstrated by its consistent performance. As an operator, learn everything you can from them. As an investor, you could do a lot worse than owning DRI for the long haul.

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CFOs Talk Growth, Opportunity for 2025

CFOs gathered at the recent Restaurant Finance & Development Conference discussed lessons from 2024 and strategies for 2025. Artificial intelligence (AI) came up early.

"We leverage AI to help us with our demand forecasting," said Tiffany Furman, CFO at Habit Burger & Grill. "If you have a great forecast, it improves your food waste and helps with your labor scheduling, which allows you to provide better service to your guests."

It's important to understand what AI can do for you, said Steve Cirulis, CFO at Potbelly.

"It's not the generative AI that makes a difference; it's the machine learning," he said. "The key is to allow the technology to ingest your financials and give you data."

Furman said technology helps her assess expansion opportunities.

"There are tech companies doing some cool stuff with mass-mobile data and credit-card data that can help you find out if you're going to the right trade area," she said. "There's still some art to it but you want to make sure you fully understand an area's demographics."

Robert Linder, CFO at Lazy Dog Restaurants, observed some changes in construction costs in 2024 that could impact builds this year.

"Our industry, especially casual dining, is in a bit of a flux on the construction-cost side," he said. "We've actually gone back to cities and redesigned locations because we know that the cost environment is such that we knew what the old one was going to cost, and we did a lot of redesign work to bring the investment cost back down to a level that was acceptable for us in our cash-on-cash returns. We want to keep attracting the investment community to help us fund growth."

Cirulis shared that for Potbelly, smaller build-outs in 2025 could provide big dividends.

"Our new 1,800-square-foot box will do about the same AUVs as our traditional 2,300-square-foot store, about $1.3 million," he said. "That smaller footprint helps us save on lease rates and build-out costs. Having lower rent over the course of your franchise agreement or your lease is like an annuity."

Bill Long, CFO at Snooze A.M. Eatery, is viewing the slowing of inflation as an opportunity to renegotiate terms with vendors.

"A lot of vendors and third-party providers have a lot better visibility into their own price structures than they have for the last several years," he said. "If you have had price increases passed along to you, or you have entered into contracts in the last couple years, you might find a willingness among vendors and suppliers, up and down the P&L, to renegotiate. Have conversations with those partners. They've got some room in there."

Tech consolidation can provide savings too, especially for companies with multiple brands in their portfolios, said Chris Crawley, CFO at Hofman Hospitality Group.

"We operate three different brands and had a tendency to make decisions in silos, which meant we had technology overlapping among brands," he said. "We looked at our tech and consolidated systems."

Dynamic pricing may have been one of the biggest industry stories in 2024. Tiered pricing might grow in prominence in 2025 for companies that run locations in multiple states, said Long.

"One of the things we've gotten more pointed about is making sure we've got specific price tiers that address what's going on with legislated wage increases in different municipalities in different states," he said. "We even have different price tiers within similar markets where certain cities may have different wage-and -abor laws compared to cities right next to them."

The way you look at it matters.

Long continued. "Don't get caught in the trap of looking at average wage rate increases and then taking average price increases across different markets. You have to realize that you're operating against dozens of independents within any given market that are reacting to local laws. They're not taking price in Texas against wage increases in California, Arizona and Colorado, right? Make assessments based on what's going on in each market."

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