Foodservice CEO

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Making sense of M&A

After 2021 ushered in one of the fastest-moving periods for restaurant mergers and acquisitions in history, many industry watchers expected somewhat of a slowdown in 2022. Nick Cole, head of finance at Mitsubishi UFJ Financial Group (MUFG), said strong sales across the industry were accompanied by the erosion of restaurant margins due to higher costs for food, fuel, labor, and transportation. M&A activity did slow down in the first quarter, but for many concepts, the reasons for it remain. In recent decades, the restaurant industry has gone through cycles of bundling and unbundling concepts in response to market conditions — and it looks like we may still be in a bundling phase, with significant transactions being announced in recent months. Consider Dave & Buster's purchase of Main Event this spring for $835 million, or just this month, the back-to-back announcements of the mergers of Modern Restaurant Concepts and Qdoba, as well as MTY Food Group's acquisition of Famous Dave's parent company BBQ Holdings, which itself acquired Barrio Queen earlier this year. However, with the prospect of a recession looming — we may actually already be in one — conventional wisdom expects M&A to slow as there is less capital to fund deals. In a recent episode of First Bite, a podcast from Nation's Restaurant News, Sam Ochs, the publication's editorial director, weighed in on the likely reasons behind some of these transactions. He said that pre-recession or early-recession, there are a lot of good deals to be had. Covid-19 has clarified the strength and sustainability of brands, so those that have managed to navigate around the many challenges of the past few years may be able to acquire appealing brands that are struggling to climb back out of the hole created by the pandemic.

The transactions that have occurred do draw complementary benefits from the brands brought together in each transaction. For example, joining the fresh energy of Modern Restaurant Concepts' brands including Modern Market Eatery and Lemonade with Qdoba's resources is likely to help all of the brands shine. While it's difficult to say how much longer deals will abound, for restaurants needing to operate as efficiently and leanly as possible, being able to draw on shared resources and economies of scale through inorganic growth may help them draw strength for any additional bumps ahead.

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Evolving industry, evolving financing

The restaurant industry has changed at a frenetic pace over the past few years — and while securing financing may be difficult in current economic conditions, there are reasons for optimism. A report from American Banker earlier this year said that some of the challenges restaurants have had to face in the past few years are the kinds of tests that make them good risks for financing: “Many chains and franchises have recently posted some of their best years ever, with quick-service and fast-casual operations proving particularly resilient. The restaurants that have survived have also learned to operate more efficiently, in spite of staffing challenges.”

There is also some innovation happening in terms of the deals that are available and for whom. Erik Hermann, partner and head of the investment group with CapitalSpring, told Restaurant Business recently that the firm may expand its investments to include “the ecosystem around the multi-unit foodservice business,” meaning that it could grow to include manufacturers, technology companies and business services that support restaurants. He also said his firm would be more flexible going forward in light of industry changes, such as margin pressures, and could help companies reset their financing.

At a time when local economies need a boost, think outside of the box when it comes to your needs and where you can be flexible. As this report from Poster relates, there have been restaurants who have found funding (and even partial loan forgiveness) from nearby cities in exchange for creating jobs and keeping those positions open for a period of years. If your business has been able to navigate the challenges of the past few years, it may have access to unexpected opportunities for funding. At Restaurant Finance Monitor’s Restaurant Finance & Development Conference, which is coming up in November, there will be a session on securing financing in a post-Covid economy. Speakers will be weighing in on the deal structures now available for businesses who can demonstrate their strength and capabilities. Expect some innovation in this space.

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Tax code changes may bring financial flexibility

So far this year, the Federal Reserve has increased interest rates by 150 basis points and is expected to raise rates by another 200 basis points during the remaining months of 2022. In this environment, access to capital and the cost of debt financing can be debilitating for restaurants looking to grow or simply to adapt to new ways of doing business. Some relief may be coming in the form of changes to the U.S. tax code. Congress is considering restoring depreciation and amortization to the formula for calculating interest on business expenses, which could help give restaurants greater flexibility to finance the changes they need to make to their operations.

If you're interested in learning more about potential changes to come, the National Restaurant Association is hosting a webinar with Aaron Frazier, the association's vice president of public policy, on August 31st. He will be explaining how restaurants can benefit from the Permanently Preserving America's Investment in Manufacturing Act, as well as from undoing restrictive changes to the EBITDA calculation.

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Dissect your food costs

Your food costs may be the most dynamic part of your business, with supply chain strains, inflated costs, climate-related challenges and shifting consumer trends constantly altering the makeup of your menu. As such, there are ongoing opportunities for added expenses to creep in — but also for businesses to course-correct.

The tools and automated processes you have in place can help you stay on top of the changes. First, with what degree of precision do you understand your actual versus theoretical food costs? Do you have tools that can give you that information on-the-spot? Are you automatically updating your food cost records in step with your inventory and accounting cycles? Do you have the tools to help you understand the cost breakdown for menu components you make versus those you buy prepared — and how that changes as expenses for your supplies and staff climb?

While the current confluence of economic challenges makes it all the more challenging for restaurants to profit, it also rewards those that can analyze their dynamic costs with the greatest precision. If you need help in improving your operation's food cost

Take the right temperature

When monitoring the temperature of food, the only gauge to trust is a food thermometer inserted into the food in question. As Statefoodsafety.com reports, you can get an inaccurate measure if you rely on the temperature reading of the equipment used to heat or cool the food, or the thermometer reading of the water that may surround the food in its serving container. Make sure any hot-held food reaches at least 135˚F and cold food stays 41˚F or cooler.

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