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Prices for restaurant chains near their peak

Blog: An analyst suggests prices won't rise much higher

[Jonathan Maze](#) | May 24, 2017



This post is part of the [On the Margin](#) blog.

Prices for restaurant companies keep increasing. Popeyes Louisiana Kitchen and Panera Bread, among other brands, were acquired for multiples once thought to be unheard of in the big chain world.

But the multiple expansion of recent years could be coming to an end, at least in the views of one firm.

“We’re almost at peak,” said Bahige El-Rayes, principal in the consumer and retail practice at the consulting firm A.T. Kearney.

Multiples for restaurant companies are crazy. Multiples for large restaurant companies in 2016 averaged 15.5 times earnings before interest, taxes, depreciation and amortization, or EBITDA.

Smaller deals are getting a more modest, 13.3 times EBITDA on average, meaning that buyers are paying heavily for the safety of a large company.

Both numbers, however, are down from where they were in 2015, when both large and smaller deals averaged 15.7 multiples. Still, the size of large-scale deals so far in 2017 — Panera and Popeyes both went for enormous prices — suggests the

Pricing levels for restaurant acquisitions are important because they fuel much of the activity in the industry. A multiple of 15, for instance, means a buyer would require 15 years to pay off the acquisition at existing earnings levels.

Those kind of prices put pressure on buyers to expand, even if they plan on keeping their acquisitions for many years — which is certainly the case in both the Panera and Popeyes deals, where buyers JAB Holding Co. and Restaurant Brands International Inc. have no plans on flipping them in five years like traditional private equity buyers.

It also pushes buyers to look for other deals. And as we reported earlier this month, private-equity groups that are reticent to pay multiples of 15 for companies have been looking “down market” at smaller concepts they can grow.

Not surprisingly, [there were more down market deals for upstart restaurant chains than during any year since the recession](#) — and probably ever.

There are two huge reasons multiples for restaurants have expanded even amid concerns over sales.

First, the Internet has hammered consumer companies, particularly retailers, as companies like Amazon.com draw business. So there's a sense of safety in the restaurant world. People always have to eat, after all.

Second, there's a major sense among investors that the restaurant industry is evolving, paving the way for newer types of concepts. But companies can also find expansion opportunities overseas, which provides opportunities for growth, even though the U.S. market is filled with restaurants.

One other factor, at least at the chain level, has been the presence of strategic buyers, which tend to pay higher prices than are private equity and other financial

Indeed, financial buyers are “having a hard time, especially with megadeals,” El-Rayes said. “They’re getting priced out.”

But, he said, expect private-equity groups to make a comeback. These firms should get more financing and more interest in making deals. And that could keep the deal flow moving in the coming years.

Jonathan Maze, Nation’s Restaurant News senior financial editor, does not directly own stock or interest in a restaurant company.

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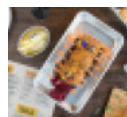
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California restaurant veteran Jeff King dies

His King's Seafood Company will soon debut a new meat-focused restaurant

[Lisa Jennings](#) | May 31, 2017



Restaurant industry veteran Jeff King died unexpectedly on May 17, at Ronald Reagan UCLA Medical Center in Los Angeles, his family confirmed. He was 77 years old.

The cause of death was not immediately available.

King was a co-founder of King's Seafood Company, a growing multi-concept group that operates the five-unit Water Grill chain; single-unit restaurants Lou & Mickey's in San Diego, PierBurger in Santa Monica, the 555 East steakhouse in Long Beach and the fast-casual Fish Camp in Huntington Beach; as well as the 11-

This summer, King's Seafood Company is scheduled to open Meat On Ocean, overlooking the beach in Santa Monica, Calif. The meat-centric restaurant will have a charcuterie bar, an exhibition dry-aging room and a selection of prime beef from around the world.

Friends in the industry described King as a people person.

"In Yiddish, he was a mensch or a person of integrity, a good guy," said Fred LeFranc, founding partner of consulting firm Results Thru Strategy. "We were all better off for having known Jeff. He had a twinkle in his eye, a story to tell and always spoke reverently about his family heritage. In fact, everyone became part of his family.

"His outreach and work with charitable causes was an extension of his kindness, wit and warmth," LeFranc added. "While his accomplishments in the restaurant industry will be honored and acclaimed, his greatest legacy will be the way he touched all he met. We will miss Jeff, yet he left his mark in all of us in the only way that matters."

King was a partner in King's Seafood Company with his cousin, Sam King. Their fathers, Lou and Mickey King, were also restaurateurs who launched a family of restaurants that after 40 years were sold to Tiny Naylor's Inc., in 1982.

Jeff and Sam King later went on to debut 555 East in 1984, which launched their company, initially called University Restaurant Group, inspired by the friendly rivalry between their two alma maters, UCLA and University of Southern California.

In 1998, they changed the name to King's Seafood Company, later adding a seafood distribution operation and expanding with new concepts now across three states.

Jeff King was also active in the California Restaurant Association, serving most

the California Travel & Tourism Commission.

“Jeff was an authentic industry leader who lived life unfiltered and with great affection,” said Jot Condie, president and CEO of the California Restaurant Association. “He will be missed and remembered by an industry thankful for having learned from him and laughed with him.”

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