Why they buy

A look at the strategies of five private equity players making big moves in the industry **BY LISA JENNINGS**

There was a time when restaurant chains had to be a certain size or have a certain valuation to win the attention of private equity players.

Today, however, private equity firms are flush with cash and see the restaurant industry as rife with growth opportunities. They are scouting big, small and in-between chains, franchisee operations and even young brands just out of the gate.

For restaurant operators, the search for "professional money" can be equally vast. Some private equity firms are focused on operations, bringing with them both capital and industry expertise. Others are looking for turnaround opportunities or companies with a long runway for growth — or both.

Matt Matros, founder and chief executive of the Chicago-based fast-casual Protein Bar chain, is one operator who has been courted by many of these firms in recent months. Reports have indicated Protein Bar is close to a deal with Catterton Partners, though Matros could not comment.

Still, Matros said, getting to know such players is crucial for anyone considering a walk down the private equity path.

"It's really a dating process," he said. "You'll go on some first dates, and then some more dates. You have to really get to know each other."

Working out details about the actual investment and the equity an owner might be giving up are almost secondary, he said.

"You definitely want to find a private equity firm that has a shared vision for where you want to go," Matros said.

Following are snapshots of five firms with significant restaurant investments. While there are many others that are not included here — Sentinel Capital Partners; KarpReilly; Angelo, Gordon & Co.; Goode Partners; etc. — those that are included reveal the broad portfolios of some of the key industry players.

BRENTWOOD ASSOCIATES

Los Angeles

Investment strategy: Seeks growth companies and brands that consumers feel deeply connected to; open to different structures and investment sizes; prefers equity investments of $20 million to $100 million, but can invest $150 million or more.

Principal: Rahul Aggarwal, managing director

RAHUL AGGARWAL

INVESTMENT HISTORY

Brentwood Associates

Current holdings:

- K-Mac Holdings Corp.: Fort Smith, Ark.-based franchisee of 249 Taco Bell, KFC and Golden Corral restaurants; acquired in 2011.
- Zoës Kitchen: 92-unit Mediterranean concept based in Birmingham, Ala.; acquired with Greg Dollarhyde in 2007.
- Veggie Grill: 21-unit fast-casual chain specializing in vegan fare, based in Santa Monica, Calif.; initially invested in 2011, upped stake in 2013, though still a minority position.
- Lazy Dog Restaurant & Bar: 12-unit casual-dining chain based in Huntington Beach, Calif.; invested in 2013.

Realized investments:

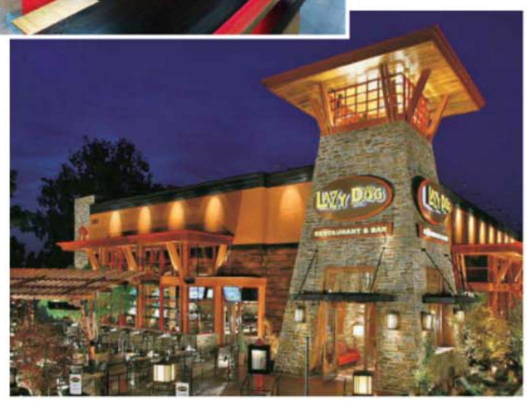
- Pacific Island Restaurants Inc.: Honolulu-based franchise operator of Taco Bell, Pizza Hut, A&W and Long John Silver's units in Hawaii and Guam; acquired in 2004, sold to Nimes Capital LLC in 2013.

A brand's strength is measured by the connection it has with its audience, said Rahul Aggarwal, managing director of Brentwood Associates. For that reason, restaurant companies are a very attractive investment.

"People connect with restaurants in a way that you don't get when you buy a pair of pants," he said.

He pointed to Taco Bell, part of K-Mac Holdings Corp., as a brand that has long interacted with patrons in a unique way. K-Mac is one of two franchise companies Brentwood has invested in. Pacific Island Restaurants Inc. is another, which also franchised Taco Bell, among other brands. Brentwood sold Pacific Island Restaurants earlier this year.

"If you look at how [Taco Bell has] performed over the past 20 years, they've really been able to evolve the brand through different generations, and the food," he said. "They don't just do the same old thing."



With a focus on growth companies that are able to connect with consumers, Brentwood Associates has invested in such brands as, from top, Veggie Grill, Lazy Dog Restaurant & Bar and Zoës Kitchen.

Brentwood more recently has taken a stake in three emerging brands the firm views as having long runways.

Through Pacific Island Restaurants, Brentwood developed a relationship with industry veteran Greg Dollarhyde, who was credited with growing and selling the Baja Fresh Mexican Grill chain to Wendy's in 2002 for more than $275 million. Dollarhyde was executive chairman of Pacific Island Restaurants.

With Dollarhyde, Brentwood invested in Zoës Kitchen in 2007. At the time, the chain had 19 units, but the investors saw growth potential. Mediterranean food, with its health halo, was much in demand. The chain is on track to reach 100 locations by the end of 2013, with much of the growth coming from company-owned locations. Only about eight units are franchised.

In 2011 Brentwood joined with Dollarhyde again to invest in Veggie Grill, a fast-casual concept designed to become the first national chain with an entirely meat-free menu. As he had done at Zoës Kitchen, Dollarhyde took on the

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chief executive role at Veggie Grill. Veggie Grill currently has 21 units along the West Coast, from San Diego to Seattle, and plans to double both unit count and revenues every 12 to 18 months.

Earlier this year, Brentwood added to its portfolio Lazy Dog Restaurant & Bar, a casual-dining concept created by Chris Simms, the son of Mimi's Cafe founder Thomas Simms.

Chris Simms, Lazy Dog's chief executive, said the investment allows him the luxury of growing without seeking financing store by store. The chain plans to open three restaurants in 2014, for now staying within the brand's core market of California.

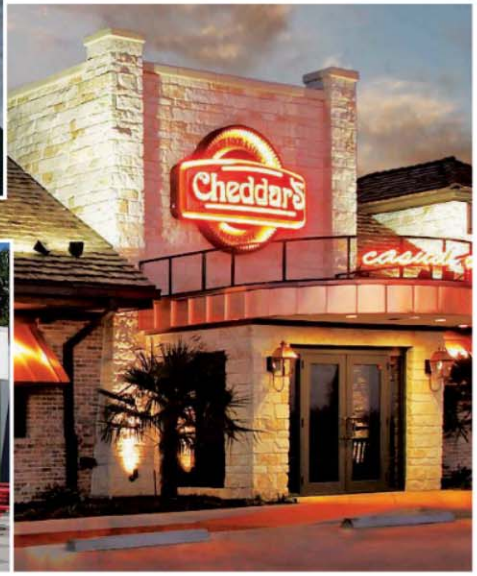
"Brentwood is considered one of the better groups for investing in emerging brands and taking it to the next level," said J. Riley Lagesen, an attorney with Davis Wright Tremaine, which has a large restaurant client base. "There are really only a handful of [other] players that invest in emerging brands, including Catterton and KarpReilly."

Brentwood is open to doing even more in the restaurant space, Aggarwal said.

"There's a lot of money flowing right now," he said. "Restaurants have been overlooked for a long time, and they're really hot and in vogue right now."


JONATHAN OWSLEY


ANDREW TAUB



RON RUGGLESS

Catterton Partners tends to seek both regional and national brands that leverage major consumer trends, such as, clockwise from top right, Cheddar's Casual Café, Primanti Bros., Mendocino Farms and Snap Kitchen.

CATTERTON PARTNERS

Greenwich, Conn.

Investment strategy: Seeks middle-market consumer companies with distinctive brands that leverage leading trends, have strong management teams and significant growth potential; can commit $5 million to $250 million; focus is on greater equity returns rather than the size or stage of the company.

Principals: Andrew Taub, partner; Jonathan Owsley, partner

Catterton Partners has been active in the restaurant industry for 25 years, putting capital into concepts that have ranged from the casual-dining multiconcept parent of the Outback Steakhouse chain to a six-unit sandwich shop in Los Angeles. At presstime, Catterton also had made a "significant investment" in Piada Italian Street Food, a Columbus, Ohio-based fast-casual chain.

Whether the target is an emerging brand or a national chain, the firm looks for concepts that hone in on consumer trends. In addition to the recent investment in the health-focused takeaway brand Snap Kitchen, Catterton is reported to be working on a deal with Protein Bar, a health-focused fast-casual chain with 12 units. The firm recently raised $2.1 billion across two funds and has more than $4 billion under active management.

"We focus primarily on what and how consumers want to eat today, and, more importantly, for the foreseeable future," said Jon Owsley, a partner at Catterton.

"For example, in the 'what' people want to eat, healthy food is one component of our market strategy, but our overall focus is on distinctive consumer value propositions, regardless of the specific offering," he continued. "In the 'how' people want to eat, fast casual is a sub-sector of the market that we find compelling."

Steve Rockwell, a partner in Charlotte, N.C.-based consulting firm Results Thru Strategy, said, "I think it's really interesting that a firm as large as Catterton does both small deals and big deals."

With the financial markets focusing less on smaller companies, he added, "now you have private equity stepping in to fill that void."

For younger brands, Catterton is known for bringing in veterans from prior investments to help plot a path for growth.

For example, Bill Allen, the former chairman and chief executive of OSI Restaurant Partners Inc., now known as Bloomin' Brands Inc., is on the board of Mendocino Farms.

Larger companies also benefit. Catterton led an investor group that acquired Broomfield, Colo.-based Noodles & Company in 2010, when the fast-casual chain had 250 units.

Today, Noodles & Company has 348 locations and a more streamlined brand positioning and identity, said Andrew Taub, a partner at Catterton. The company has set the goal of reaching 2,500 locations in the U.S. alone.

In June the chain held an initial public offering, and its stock price more than doubled on the first day of trading, valuing the company at more than four times Catterton's acquisition price, Taub noted. Initially priced at $18 per share, the company's stock has remained largely above the $40 mark, sparking new interest in restaurant IPOs.

"We believe Noodles & Company is a restaurant chain that other brands strive to emulate," Taub said. "Noodles is very well-

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INVESTMENT HISTORY

Catterton Partners

Current holdings:

- Snap Kitchen: 10-unit health-focused takeaway brand based in Austin, Texas; invested in 2013.
- Primanti Bros.: 20-unit iconic sandwich chain, primarily in Pittsburgh; invested in 2012.
- Mendocino Farms: six-unit gourmet sandwich concept based in Los Angeles; invested in 2012.
- Noodles & Company: 348-unit fast-casual chain based in Broomfield, Colo., offering pastas from around the world, sandwiches and salads; acquired in 2010, went public in 2013.
- Bloomin' Brands Inc.: based in Tampa, Fla., and previously called OSI Restaurant Partners Inc., parent to the Outback Steakhouse chain, as well as Carrabba's Italian Grill, Bonefish Grill, Fleming's Prime Steakhouse and Wine Bar, and Roy's; acquired with Bain Capital Partners LLC in 2007 in a going-private deal valued at $3.2 billion, went public again last year.
- Cheddar's Casual Café: 143-unit casual-dining chain based in Irving, Texas; acquired with Oak Investment Partners in 2006.

Realized investments:

- First Watch: invested in 2004, exited in 2011.
- Baja Fresh Mexican Grill: invested in 1998, exited in 2002.
- Caribou Coffee: invested in 1995, exited in 2000.
- P.F. Chang's China Bistro: invested in 1996, exited in 2000.
- Culinary Concepts by Jean Georges: invested in 2006, exited in 2010.