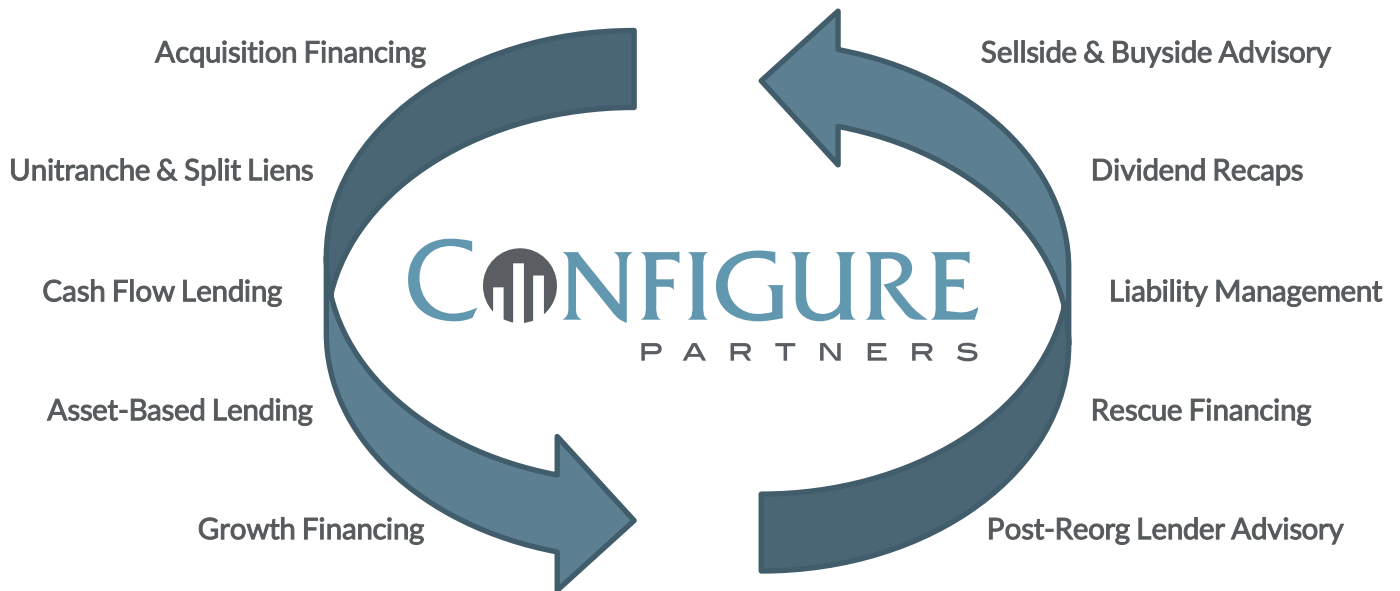


# QSR & Casual Dining

*Industry Snapshot | 1Q 2022*

# About Configure Partners

Configure Partners is a unique investment banking platform. Partnering with us allows our clients to remain focused on their strategic and operational objectives while entrusting us to develop the optimal credit solution.



## Restaurant Experience Across a Broad Mix of Concepts and Transaction Types



*Buyside and Sellside M&A, Financing Advisory, and Review of Strategic Alternatives*



*Sole Lead Arranger for credit facilities related to the acquisition and buyside advisor to the Acquiror*



*Sellside M&A and Financing Advisory*



*Sellside M&A and Financing Advisory*



*Sellside M&A and Financing Advisory*



*Lender Advisory*

## Industry Coverage Contacts



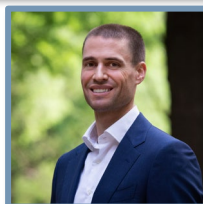
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# SPB & J. Alexander's Acquisition and Financing Case Study

## Company & Situation Overview

- SPB Hospitality ("SPB" or the "Company") is a leading multi-concept restaurant group comprised of 242 company-operated restaurants and 61 franchised locations across the casual and polished casual dining spectrum
- The Company was formed in 2020 through an asset purchase of Logan's Roadhouse, Old Chicago Pizza, and select brewpub brands from Craftworks Holdings within Ch. 11
- Following the purchase, a revamped management team created significant value through operational initiatives targeting store-level profitability improvement and overhead efficiencies
- With a clean balance sheet post-emergence and significantly enhanced EBITDA efficiency, the Company identified J. Alexander's ("JAX") as a highly complimentary collection of mid- to high-end dining concepts that could diversify SPB's family of brands
- On July 2, 2021, SPB announced that it would acquire JAX for \$14 per share, or approximately \$220MM
- Configure Partners served as the Company's buyside and financing advisor through the process

## Initial Challenges

- Configure's initial outreach to the lending universe ran into multiple roadblocks:
- Limited lender interest in restaurant and hospitality opportunities given recent scarring from pandemic
- Hesitation extending credit to borrowers recently emerging from Ch. 11
- Difficulty underwriting normalized EBITDA

## The Configure Approach

- **The Right Message:** Deep-dive diligence to substantiate operational and financial improvements
- **The Right Access:** Connectivity to bank and non-bank pockets of capital currently being deployed into hospitality credits
- **The Right Execution:** Extensive conversations with interested parties and deep involvement through commitment letter and credit agreement drafting

## Results

- A robust process generated multiple interested parties and term sheets
- Credit agreement provided flexibility for further opportunistic M&A as well as for distributions
- Synovus and JPMorgan led a \$180MM credit facility
- SPB completed its acquisition of J. Alexander's on September 30, 2021



Jim Mazany  
CEO, SPB Hospitality

*"Configure was integral in every step of the process, from initial due diligence to close. Configure utilized its industry expertise and deep credit knowledge to navigate the credit universe to secure a great outcome and lending partners."*

# Configure Observations on Credit Markets for Restaurant Borrowers

## Key Credit Concerns for Lenders

A

**Labor** - Significant cost inflation has been driven by supply/demand imbalances. Multiple states and municipalities raising minimum wages combined with disruptions in labor availability due to COVID-19 has created additional headaches for managers.

B

**Food Cost Inflation** - While official inflation stats suggest food prices rising high single digits, many items are substantially more expensive and a market-weighted basket of goods for most restauranteurs is up double-digits.

C

**Virtual Brands** - Proliferation of off-premise sales channels unlocked kitchen capacity and the ability to sell multiple concepts from the same kitchens. Many existing restaurants have succeeded improving kitchen throughput and restaurant-level profitability with the introduction of virtual brands sold through apps.

D

**Technology** - Due to the proliferation of digital and off-premise sales channels, restaurant operators have invested in technology to upgrade customer experience and integrate loyalty programs to drive sticky and recurring customer orders.

E

**Geography & Politics** - Local regulations on COVID-19 safety protocol and the impact of local minimum wage law has given rise to geographical preferences for lenders and operators.

F

**Landlords & Leases** - Inconsistent traffic caused by COVID-19 has led to requested rent abatements across the industry, with 28% of restaurants unable to pay rent in full and on time in February, according to an Alignable Rent Report.

*Configure's experience advising restaurant borrowers across the spectrum of QSR to casual and fine dining in a wide array of transactions provides a unique window into key lender concerns*

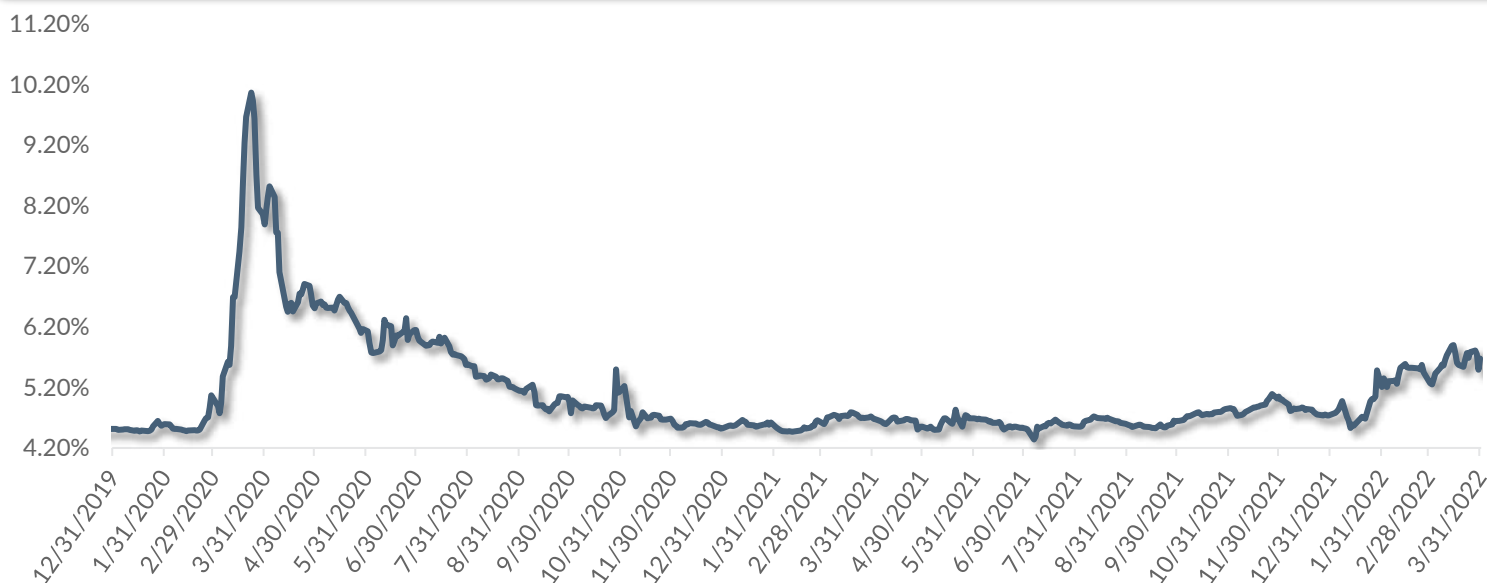
# Cost of Capital for Restauranters

## Key Takeaways

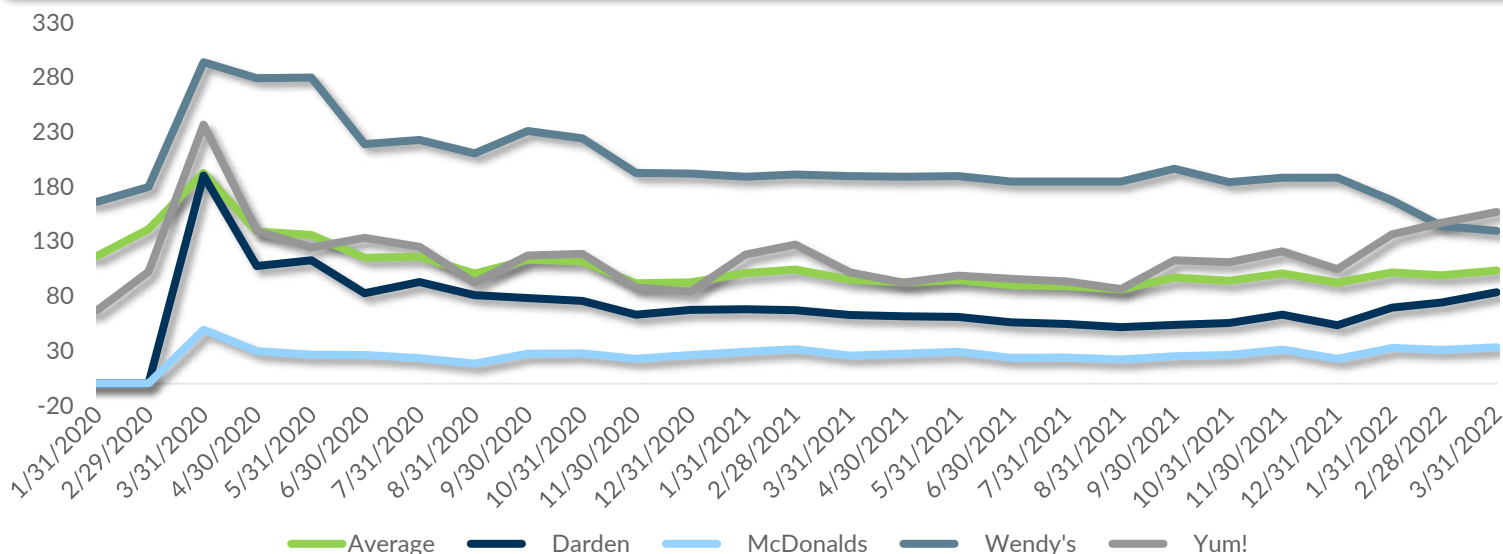
- Bond yields for restaurant borrowers escalated rapidly in March of 2020 as fears over COVID-19 cast a chill on financial markets broadly and the leisure and hospitality sector specifically.
- As fears subsided, government stimulus flowed, and restaurants found creative ways to serve customers even without a full dining room. Bond yields fell steadily during Q2 and throughout the end of 2020 with yields remaining at historically low levels, even through the Omicron outbreak in Q4 2021.
- With the Federal Reserve signaling tighter monetary policy ahead and pervasive restaurant cost inflation evident in 2021 financial performance, the cost of capital market wide and specifically within the restaurant sector rose throughout Q1 2022

## Illustrative High Yield Restaurant Credit Performance and Cost of Debt Financing

### Bloomberg High Yield Total Return Restaurants Index (Index YTM)<sup>(1)</sup>



### 5-Year Credit Default Swap (CDS) Credit Spreads<sup>(2)</sup>

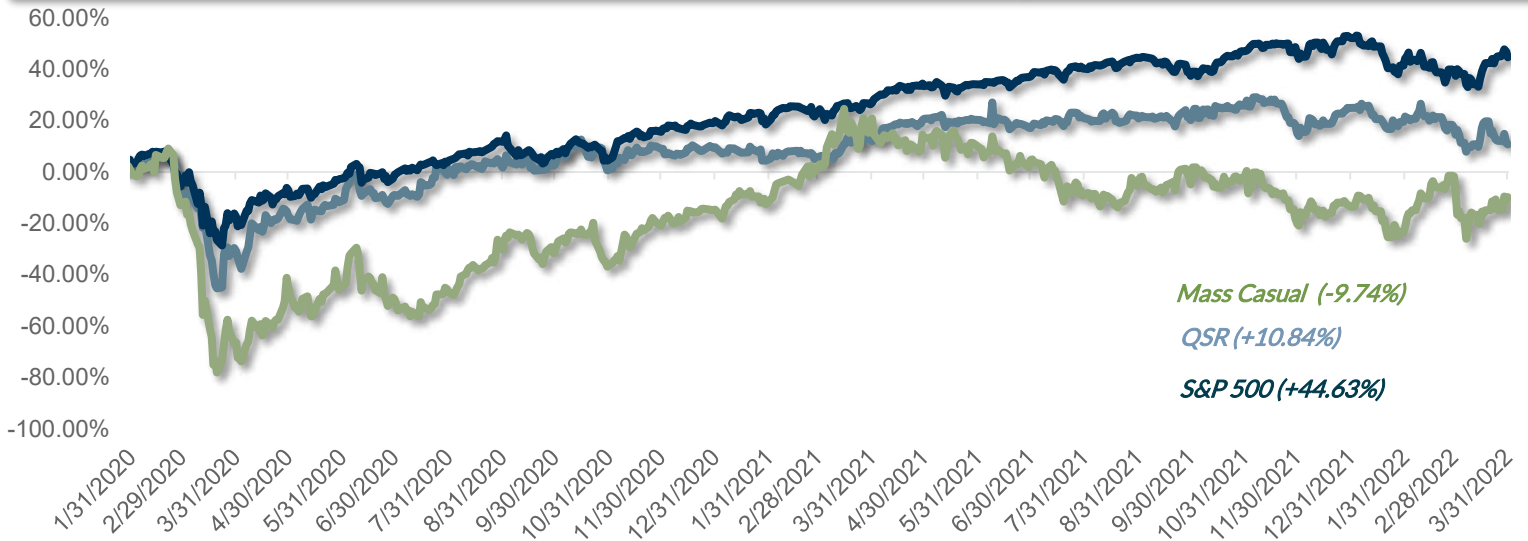


Source: Bloomberg

1. The Bloomberg High Yield Total Return Restaurant Index shown tracks the yield to maturity of a basket of high yield fixed income securities of restaurant issuers
2. Represents CDS credit spreads (in basis points) on a 5-year contract for a representative basket of restaurant issuers

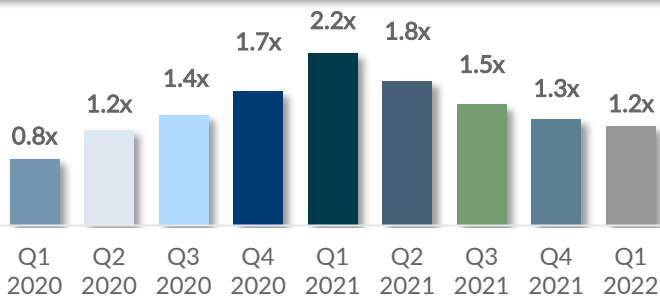
# Public Equity Markets: Subsector Performance

## Indexed Stock Price Performance – Since Q1 2020

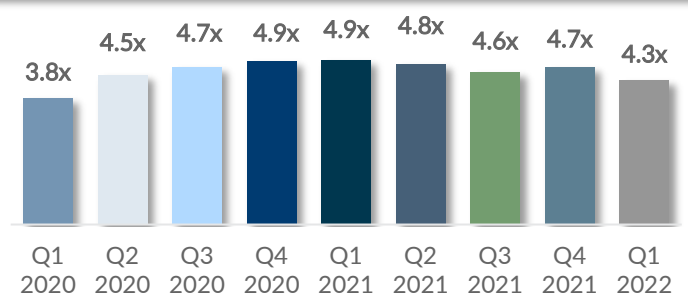


## Subsector EV / Revenue & EBITDA Trends

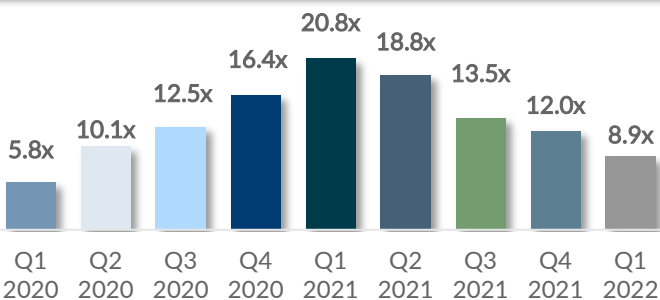
### Mass Casual: EV / LTM Revenue



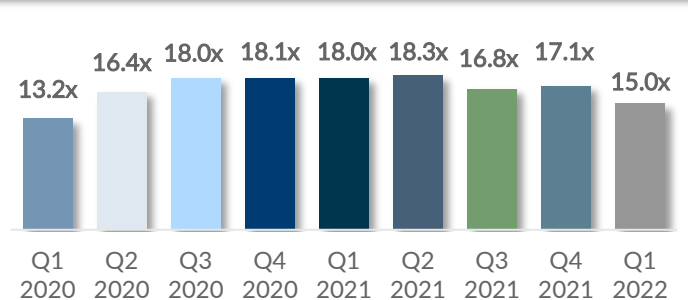
### QSR: EV / LTM Revenue



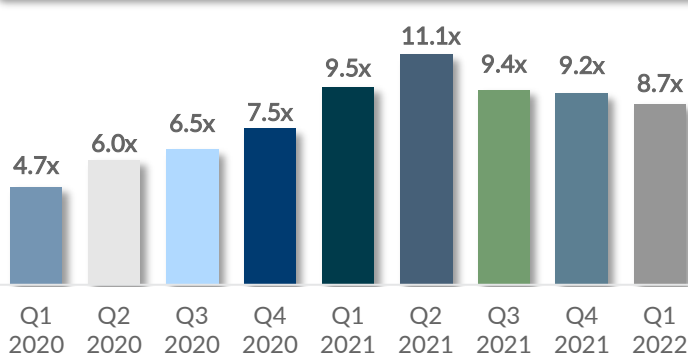
### Mass Casual: EV / LTM EBITDA



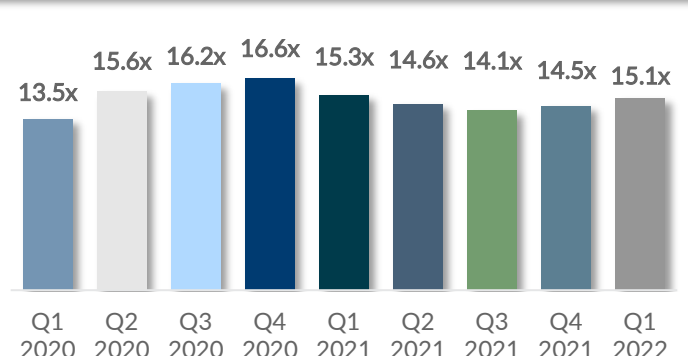
### QSR: EV / LTM EBITDA



### Mass Casual: EV / FYE 2019 EBITDA



### QSR: EV / FYE 2019 EBITDA

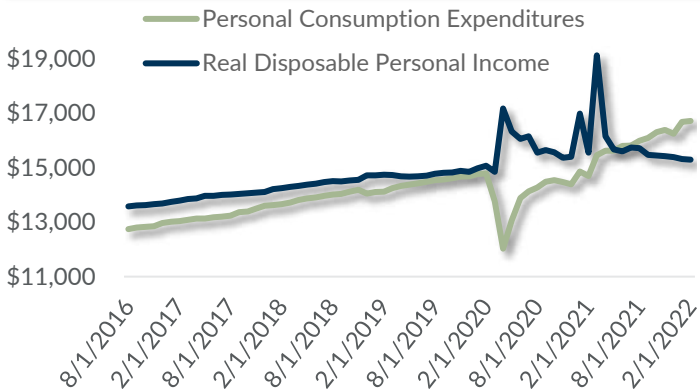


# Macroeconomic Indicators

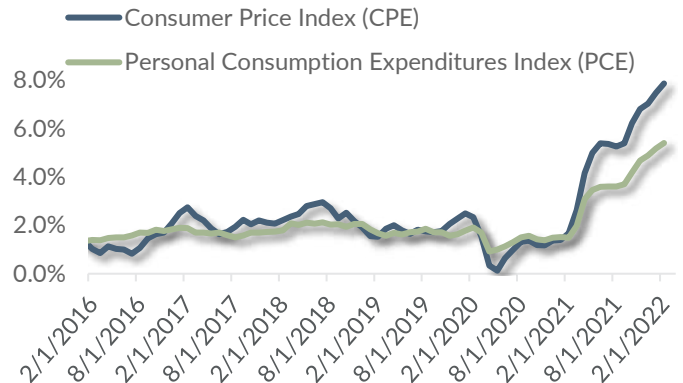
## Key Takeaways

- Real disposable income is historically more than expenditures, implying a level of savings for consumers. At the depths of covid panic in Q1 - Q3 2020, that gap blew out as consumers saved cash and benefitted from government stimulus. From Q4 '20 through the first quarter of 2022, consumers drew down on savings.
- Consumers' increased propensity to spend combined with severe supply chain disruption led to the highest inflation statistics in decades, with CPI hitting ~8% by the end of Q1 2022, a level not seen since the early 1980s.
- Restaurants benefitted from vaccinated consumers' increased comfort dining in public and their plentiful savings leading to increased traffic, but struggled to combat wage and input cost inflation in a battle to maintain margins

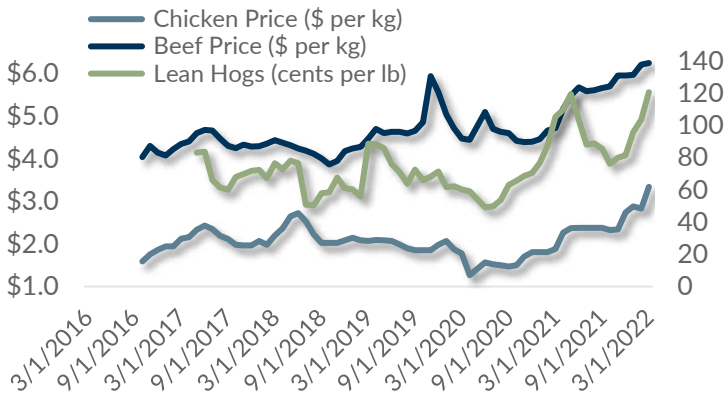
### Consumer Financial Health Metrics (\$B)



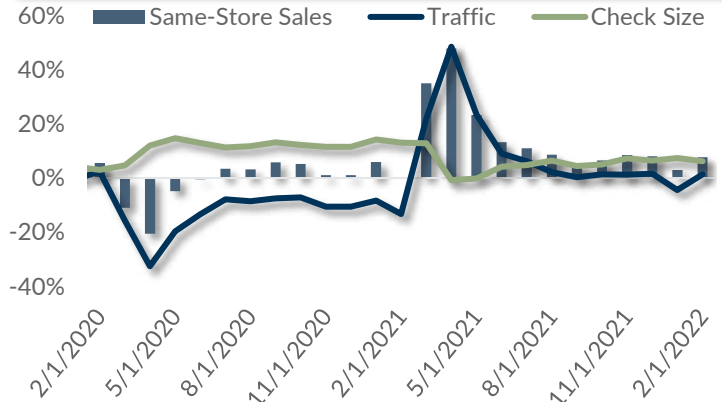
### CPI and PCE Index (YoY % Change)



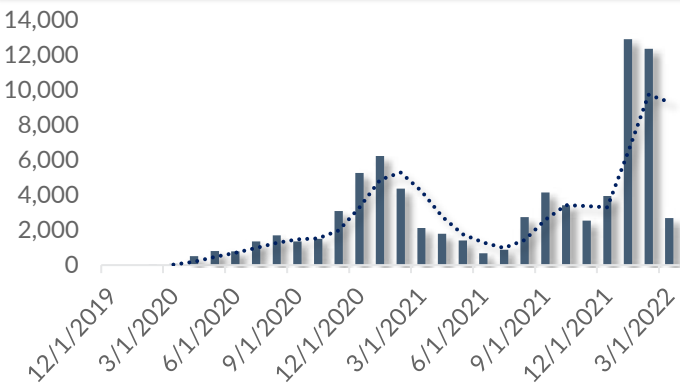
### Chicken / Beef / Hog Commodity Prices



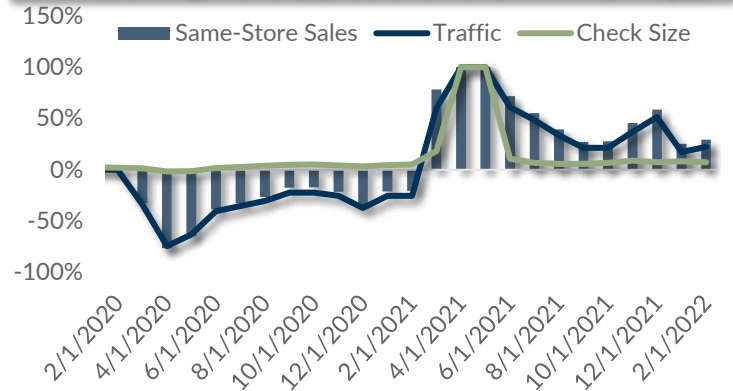
### QSR Performance Metrics (YoY % Change)



### New U.S. COVID-19 Cases (Rolling Average, M)



### Casual Dining Performance Metrics (YoY % Change)<sup>(1)</sup>



1. Casual Dining data from April and May of 2021 was highly distorted due to the Covid pandemic's affect on the restaurant industry. For illustrative purposes, we have capped the YoY change at 100%.