Plus nine more award-winning dealmakers

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Auspex Capital goes old-school to fund Border

Jeff, left, and Lee Engler are brothers and Taco Bell operators, whom Auspex Capital advised for a $263-million financing that kept their real estate separate from their restaurant operations.

Two camps rule in the restaurant business—on one hand, those who think they can get higher returns by selling and leasing back their real estate and deploying the freed capital into more restaurants.

Then there are the Engler brothers, and those like them, on the other, who prefer to retain the real estate because it allows flexibility if, say, a once-promising trade area goes bad.

Brothers Jeff and Lee Engler, who operate Border Foods of Minnesota, "have a very long-term focus," says Chris Kelleher, the partner at Auspex Capital that led a recapitalization deal to follow their wishes. "They’ve passed this business to their kids, and they wanted to retain their real estate and grow their portfolio. They want to invest in the remodels and then have the growth in sales from the remodels go to them, rather than a landlord."

The problem, as Kelleher and his partner, Naveen Goyal, found, was that financing real estate as part of an overall deal had fallen out of favor post-2008. "So the lenders were basically forcing operators who own their real estate to divest it," Kelleher explains, which is where he and his partner got to work, getting meetings with any bankers who would listen to convince them to finance the restaurant business separately from the real estate.

"We've been pushing on the lending community for several years to look at it a little bit differently, to pull the restaurant business out separately, and then finance the real estate separately," he says. "This allows them to de-leverage the operating company, and put some more amortized debt on the real estate company."

They haven't convinced everyone, Kelleher concedes. "We've gotten a lot of resistance, but we've been very persistent and we've been very analytical, and we're gradually getting the banking community convinced."

Rather than being an innovation, the tactic is actually back to the future, Kelleher says, meaning this was a typical financing method before it fell out of favor. For large operators in legacy brands with heavy remodel requirements, in particular, it's a welcome option, and one that Auspex will keep pushing back into the mainstream.

In fact, that's his lesson learned. "We've got a lot of people that turned us down and they said that's a bad idea. And we've pushed and pushed, and we've gotten some traction," Kelleher says.

After heads nod, GPS Hospitality hits milestone

When your goal is to become a $1 billion restaurant franchisee in 10 years, it's important to hit a boffo milestone or two along the way. That's what GPS Hospitality of Atlanta has done, buying 194 Burger Kings in the Gulf region and Southeast United States from Cerberus, the private equity firm, and virtually doubling its size, to an expected $600 million in revenue in 2017.

Tom Garrett, CEO, worked on the deal for about 16 months, applying his persuasive charm personally to, as he puts it, get people around the table nodding when the doors were seemingly closed. The deal closed in late December.

Tom Garrett, CEO of GPS Hospitality, has doubled the size of his franchise operation with one acquisition, and expects to hit $600 mIllion in revenue in 2017. When you follow through, he says, the next deal gets easier.

Cerberus is "a very sophisticated seller. Not that they were difficult to work with," but they were savvy and overlooked nothing. "We're a very credible buyer. Everything we've attempted to buy, we've closed on," Garrett says, since starting the firm just over four years ago. "We think we have a lot of satisfied sellers that we've dealt with." Plus, he says, employees at stores GPS buys tend to like its incentive-laden culture for high performers.

"We think all those things, as well as a fair purchase price, helped us get Cerberus nodding up and down, to say who do we want to sell this to."

It is Garrett's personal mission to look for ways that everyone in a transaction can win, and he keeps pushing until he finds it. "The doors closed often," in this transaction, he says, declining to name examples. "Our philosophy is, there are plenty of ways that everybody can get a win out of this, and you just have to find those."

One hurdle to overcome was Burger King's wish that if GPS were going to expand its footprint in the Southeast and the Gulf, GPS would give up some market share in the Midwest. So GPS sold 43 stores in Ohio, to Carrols Restaurant Group. A lender syndication was completed, too, which consolidated all debt into a single entity, and financed the transaction as well as a "nice development line" that will allow for remodels and new builds. SunTrust backs GPS, along with two family offices, and with this transaction others were brought into the mix, too, he says.

GPS's biggest focus will be integrating 194 new stores, including remodeling 44 this year and opening 15 new locations. "At the same time, we're always looking for what's over the next hill," he says. Does that mean he'll be trying to get more nodding heads? "When you follow through, your bankers, your franchisors, your lenders and so forth—hey, the next deal should get easier and easier and easier."

With new MONEY, K9 Resorts GROOMS model

Steven and Jason Parker were still in their teens when starting the company that would become K9 Resorts, their luxury hotel/daycare and boarding concept for dogs. By 2011, they launched a franchise program, but it didn't get much past their hometown region in New Jersey, where they now have 9 franchisee partners.

Last year, the brothers kicked it up a notch by attracting Navigator Partners, a fund near their home base, as a minority investor, as well as franchise consultant Steve Beagelman of SMB Franchise Advisors.

"Jason and I say it all the time," says Steven Parker, the older brother. "We know the pet care business very well, and we know franchising well, but we're nowhere near the experience level of someone like Steve Beagelman or someone like Navigator Partners."

The new partners spent their time examining every detail of their model, talking with franchisees about what was working and not working for them, and coming up with the "cookie-cutter" business they think will do well in a nationwide push.

They meet monthly as a board to strategize, something that at first Steven chafed against. "We were so resistant, me specifically, to a board. I'm more the entrepreneurial, the visionary, and my brother is more the analytical. The board was something he wanted more than I did. But now I realize the value of the board.

Steven, left, and Jason Parker are business partners and the founders of K9 Resorts, a luxury hotel and daycare for dogs. Now they've added Navigator Partners and Steve Beagelman as investors.

"My brother's more conservative, I'm more aggressive, and then we have our partners who focus on the financial aspect," he says. "If it were up to me we'd be going 100 miles an hour 365 days a year, which wouldn't maybe be the best thing. If it were up to the others, maybe we'd be going at a snail's pace."

February marked the one-year anniversary of the deal, and Steven says he's "very, very happy with the result. We're heading in the right direction." A new target for franchise sales is veterinarians, who oftentimes have a great deal of goodwill in the community.

He admits it's a crowded community, with Camp Bow Wow, in particular, well ahead in number of units and with a deal of its own two years ago that pumped in the resources of VCA, a chain of veterinary clinics.

"I welcome it," Steven says about the competition. "Franchise owners say, 'there's a Camp Bow Wow, a Dogtopia or whatever. I want to stay away.' I say, no you don't, you want to go across the street." He believes his model, offering luxury, will win the day.

KBP Foods takes a 'snowball ride' with star buy

KBP Foods became the largest domestic KFC franchisee last April with its purchase from Star Partner Enterprises of 91 KFC and Taco Bell restaurants in Michigan, New York, New Jersey, Maryland and Florida. It now operates more than 360 restaurants in 14 states with about 7,000 employees.

Mike Kulp, KBP Foods

In other words, it's not KBP's first time at the deal-making rodeo—or perhaps winter carnival would be a better phrase. "It's been a little bit of a snowball ride rolling downhill. Each time we do it and do it successfully, there's a bit of momentum that comes into it," says Mike Kulp, CEO of the Overland Park, Kansas-based franchisee.

Part of the need for acquisitions is to keep employees engaged. KBP now has 28 internal managers that have a preferred equity stake, up from four when the company started in 2011. "Meaning, they've taken out their own personal checkbooks and written checks that have yielded them a stock position," Kulp says.

Last year KBP started a program that helps employees with financial wherewithal—the company matches a portion of bonus dollars earned over a two-year vesting period—and also puts them through an education track that teaches sophisticated tax planning and much more. The idea is to prepare employees to be owners.

"It's a retention tool for our top talent. When you're able to attract those kinds of folks and keep them engaged, it trickles through the organization," Kulp says. "I'm a firm believer in the restaurant sector that if you're not growing then someone else is trying to" take your talent.

Barry Dubin, chief development officer at KBP, says there's no slowing down the acquisition machine. "In 2017 we anticipate that we will match or exceed the growth we achieved in 2016, which was a record growth year," he says.

For this transaction, AB Private Credit Investors led the senior secured financing and Monroe Moxness Berg provided legal advice.

"I think we've done everything we can to make ourselves the most qualified buyer," Dubin adds. "We always ensure we have support from the brands. We always make sure we have the capital set aside. When we find an opportunity, we sort of jump all over it, and it demonstrates to folks how serious we are to grow." In other words, for KBP Foods it's all downhill from here.

KFK survives 'extreme vetting' to win Taco Bells

t's rare for a new entrant to be able to buy into a legacy brand like Taco Bell, especially one that's doing so well and enjoying brisk competition from purchasers. But that's what happened to KFK Group & Affiliates of New Orleans, which beat out more experienced franchisees to acquire eight Taco Bells last August from corporate in the city they call home.

Elie Khoury, KFK Group

"Not to copy Donald Trump, but we went through extreme vetting" in order to get there, says Elie Khoury, CEO of KFK Group. "We had to fly out to Irvine, California," Taco Bell headquarters, "and bring our management team." Taco Bell execs shopped KFK's existing restaurants, which include 23 TGI Fridays and a handful of independents.

"Each department had Taco Bell grilling us ... and they asked us all kinds of questions. We also had a financial person call about personal history and criminal history.

"It was what you'd call thorough, times two," he adds.

What won the day? Coaching by J.B. Hewetson at The Cypress Group, which advised KFK and emphasized Khoury's intimate knowledge of the New Orleans market and the firm's sophistication as a franchisee of major hotels. Financing was secured through Fifth Third Bank.

"Today we operate in seven states, we have 2,100 employees, we have seven hotels, 36 restaurants, 9,000 apartments, 700,000 square feet of office space," Khoury says, not to mention those 23 TGI Fridays, which Cypress also helped KFK acquire during that brand's major refranchising effort over the last couple of years.

Khoury is also intimately familiar with New Orleans, and "New Orleans is a strange market," he says. Prior to Hurricane Katrina hitting the city in 2005, his company was concentrated only in New Orleans, and focused on historic renovations.

"Things were very bad down here, after Katrina. We learned a big lesson of being a real estate developer in one spot, so we needed to diversify. So 12 years ago, I made the decision that never again" would he do business in one spot only.

Khoury calls Taco Bell "a tier-one concept," and he'd like to buy more of those and/or Fridays. "I'm not overly interested in adding brands, just growing what we can. We have the capacity to get up to 75 stores; we're in the good graces of banks," he says. Now that they've made it through extreme vetting, he figures, they might as well keep the growth going.

Michael Haith says buying out the founders of Teriyaki Madness "was a very painful transaction," but when "it was all done there was a huge sense of relief." He's plowing deferred taxes back into the brand.

Teriyaki Madness diverts tax bill into growth

Michael Haith is a serial entrepreneur in Denver who freely admits he doesn't fully understand his latest deal—buying the original partners out of Teriyaki Madness after selling his stake in Maui Wowi in a 1031 asset exchange.

"It's a little beyond me. It makes me sound a little prima donna-ish, but the lawyers and accountants handled it," he says with a laugh.

Kevin Hein is his long-time attorney, originally at Faegre Baker Daniels in Denver and now at a new company called Alexius, who had the idea to use the asset exchange, a section in the IRS tax code that allows investors to buy and sell similar types of assets and defer taxes, as long as it's done in 180 days.

Common in real estate transactions, the rule applies to the exchange of any business assets, but companies aren't as easy to exchange as land parcels. "The business piece is harder to do because you have to have the stars aligned," says Hein. "It's not as easy to sell a business and buy a business in the time frame you have to do it."

The biggest hurdle was buying out the three founders of Teriyaki Madness, who had brought on Haith and his consulting firm, Franchise Sherpas, as an investor in 2012.

Haith's mission was to start a franchise program. "I think the founders were a little surprised about how different franchising was from running restaurants," says Haith, whose operating company is called M.H. Enterprises. The partners went back to being franchisees, and own the original seven shops in and around Las Vegas. "It was a very painful transaction. There was a fair amount of ownership and a lot of emotion," Haith says. "But I think when it was all done there was a huge sense of relief." At the same time, Haith bought out his colleagues in Sherpa Partners and shuttered the firm.

Teriyaki Madness now has 40 stores and Haith expects 70 by the end of this year; average unit volumes are $1.1 million after 36 months in operation, and it costs about $300,000 to open a store. "I've got a blackjack dealer that has three million-dollar-plus stores. I've got a valet who owns two," Haith says.

Haith was an investor in Maui Wowi for 20 years, but felt "it had run its course. I really have faith that Teriyaki Madness is going to be a big one"—and he's plowing all his energy, and tax-deferred capital, into making sure that happens.


Nurse Next Door CEO Cathy Thorpe hands out excellence awards at the Vancouver-based franchise's All Star party. She engineered a partnership with Southern California-based St. Joseph Health.

Nurse Next Door rejects phone call, starts talks

One day a couple of years back, the co-founders of Nurse Next Door, the Vancouver-based franchisor of home healthcare services, got a phone call. It was from executives of St. Joseph Health, a $6-billion Catholic healthcare delivery system in Southern California.

"It was quite literally, they saw the pink car with the yellow flowers" on one of the franchise's vehicles, said Cathy Thorpe, CEO. "They said, we'd like to buy the company." Although the owners didn't want to sell, they did begin to have conversations.

Thorpe, a former executive with clothing retailer The Gap who was hired to grow Nurse Next Door, and her team took it from there. "We realized we were aligned at the values level," she says, and after months of discussions and regular, monthly meetings between Thorpe and her counterpart at St. Joseph, the hospital system purchased 26 locations in July of 2015, then added another 14 last September. When she started three years ago, Nurse Next Door had 80 locations, and now they're up to 153.

"It’s jump-started the growth, and it’s jump-started the conversation," Thorpe says, about expanding much more rapidly than planned across the United States—Nurse Next Door is essentially built out in Canada. "We’ve built our business on sole proprietors, growing a business in their community. But when you can have a hospital come in with such power and position and voice, and speak to why this is so powerful," it’s a game changer.

St. Joseph is the first hospital system to become a franchisee of a home healthcare provider, Thorpe says. She believes such partnerships are a thing of the future.

Thorpe says blending a large, bureaucratic hospital system with a fast-moving, entrepreneurial franchise is a challenge. "Our time frame and their time frame were very different," she explains. "We hire people in two days, and it took them two months to hire caregivers," for example.

At the same time, Thorpe appreciates the systems and clout that a large organization has. "It’s upped our game, for sure," she says. "To have an entity of $6 billion, and a process, they’ve got that figured out. So how do we up our game and make sure we add the value? I read an expression, take on those things you aren’t ready for, and get ready for them."

She expects more of the same in the healthcare business, in which large providers team up with entrepreneurial franchises. "The industry is wanting to be disrupted," she says, and she’s excited Nurse Next Door is playing its part.

Carl Chang is founder of Pieology, newly backed by the Cherng family in his efforts to buy a competitor, Project Pie, and continue his expansion of the fast-casual pizza brand throughout the United States.

Powerful backers, the Cherng family, boost Pieology

The community is small," says Pieology's CEO Carl Chang about how he attracted the Cherng family as investors in his fast-casual pizza chain. "Andrew and Peggy are a wonderful family and also have had tremendous success. Our families have been friends and partners from a real estate perspective before."

The Cherngs are the ultimate West Coast power couple, immigrants from China (Andrew) and Burma (Peggy) who met while undergrads at Baker University in Kansas. They're co-CEOs of Panda Express, the chain of casual Chinese food restaurants, with an estimated net worth of $4.3 billion, according to Forbes.

One day in 2011, Andrew visited the very first store of Pieology and liked it so much he left a business card and said please give it to the owner and founder of this concept. Carl Chang is Pieology's founder, which Cherng didn't yet know. "And I called him. He goes, 'Huh, you're Pieology?'"

At the time, Chang says, he wasn't ready for an investor. "We had a number of people who wanted to expand the concept and partner with us. I told him, we only have one store and I want to take this out for a spin and see how it goes."

Fast forward to January 2016, and Chang finalized a strategic minority investment from Panda Restaurant Group.

"When you talk about an investment from the Cherng family, and a company that has been so successful, that kind of access to information and knowledge is really invaluable," Chang says. "Andrew and Peggy have been extremely generous. They really do open their doors and allow us access to their resources."

Chang followed the investment with the purchase of Project Pie last June, the first fast-casual pizza chain to acquire one of its competitors. Pieology has close to 150 units now, in 27 states.

Chang's parents came to the United States from Taiwan, and share the immigrant experience and a modest start with the Cherngs, Chang says. "It really started with our family, very humble beginnings," he says. "Humble meaning tough times, just buying a bowl of rice and putting food on the table."

The family fortunes began to turn when his younger brother, Michael, became a "very successful professional tennis player, and his success, which we felt to be short-lived turned out to be a 17-year blessed career." Carl managed his younger brother's career at the behest of his father.

Chang now manages the family office from his home base in Rancho Santa Margarita, California, making real estate investments and working to expand Pieology. "I would say that Pieology is the first venue in which I have participated from soup to nuts, as opposed to just being the strategist."

United PF is a complicated band of brothers

How many people does it take to form a bigger, stronger Planet Fitness franchisee? In the case of the United PF deal, the answer is at least seven: five separate Planet Fitness franchisees, Atlanta-based private equity firm Eagle Merchant Partners and JLM Financial Partners, a family office of investors owned by the lead operator who originally pushed to join forces.

Knitting together the crew was just as complicated as it sounds, says Andrew Hirsekorn, a principal at Eagle. But key to the deal was Trey Owens, who owned 25 Planet Fitness clubs in Texas and was already talking with fellow franchisees about a roll-up deal.

"Planet Fitness to date has some very passionate operators. It's a very close-knit group of franchisees, and the five franchisees that all came together in our entity, they had spent time talking about this transaction," Hirsekorn says. Sure it sounds cheesy, but they even made up t-shirts that say PFamily (for Planet Fitness family.)

"There were a lot of thoughtful things that were put in place that made them act as if they hadn't sold anything," after the transaction, he adds. "There's a mutual respect across the group."

Still, there were plenty of hurdles: getting information, moving all of the different franchisees along at the same pace. "You're basically buying five businesses at one point in time, and then from the financing standpoint, this was one of the largest debt packages within the Planet Fitness system," Hirsekorn says.

"We had to put together three lenders to underwrite the entire debt package. There was a ton of work on the financing front ... To throw in the mix you also had a franchisor that had to give approval."

The advantages? Five operators together have much more access to capital and data than five operators alone. The business is much more diversified, operating in nine states now with a 10th to be added shortly. Finally, "you have five different businesses that had all been successful within the same franchise system, so there's a lot of best practice sharing," Hirsekorn says.

Eagle Merchant Partners is new to the franchising deal scene, founded in September 2013 by four partners who had worked in a larger firm called Arcapita. They've completed three deals in franchising so far, buying Chicken Salad Chick from the founder to become the franchisor; investing in the second largest Dairy Queen franchisee; and executing the United PF roll-up of five different operators.

But don't expect more United PF-style deals in the future—this was more complex than screwing in a light bulb. "I think pulling off the combination of all of these at one time is very hard to do. It was a testament to all the groups being patient," he says.

Beth Ewen

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Well-versed in legal and public policy issues, Beth is quick to dissect a lawsuit or court ruling, and her M&A expertise yields fascinating content for FT's Dealmakers program.