

## Inside the Jack in the Box Auction

Jack in the Box may be struggling with declining sales and Abe Alizadeh's restaurants may be in bankruptcy, but that didn't stop franchisees and others from aggressively bidding for his restaurants.

Once the decision was made by Beverly McFarland to auction the restaurant business, she contacted National Franchise Sales. McFarland had worked previously with them in the sale of 26 Taco Bell restaurants a few years earlier and felt she got a good result.

Once approved by the court, National Franchise Sale's CEO Jerry Thissen put together an auction team made up of restaurant industry veterans Alan Gallup, Michael Ingram, Michael Arrowsmith, Helen Trent and John Lukac. The team marketed the restaurants to clients and the restaurant trade by way of advertisements and e-mails. Approximately 123 qualified groups signed confidentiality agreements to review the detailed financial package (there was no real estate involved in the deal) and took the necessary financial and franchise steps to qualify as bidders.

According to Gallup, the bidders consisted of "a blend of financial and strategic buyers including both single unit buyers and entities capable of acquiring the entire group."

The first step in the auction process was to accept preliminary bids to identify the highest initial bid, also known as a "stalking horse bid." A group led by Anil Yadav, a franchisee of Jack in the Box with over 120 units, offered to purchase 38 store locations. Ben Nematzadeh, a franchisee in Southern California offered to purchase 21 store locations, and a prospective franchisee, Romesh Japra, offered to purchase 2 store locations. Five stores were not included in any of the stalking horse bids. The total stalking horse bid in this case totaled \$27 million.

The second phase of the auction process was the "overbid" live auction, which took place in Sacramento on February 23 and 24. Approximately 45 pre-approved bidders showed up at the Citizens Hotel in Sacramento on those dates for the live auction. The bidders could submit bids above the stalking horse bids, or in any combination.

Certain bidders were limited as to their financial wherewithal, pre-approval by NFS or their pre-approval by Jack in the Box. After the first day of bidding, the value of the stores had increased to \$32 million. There was active bidding.

According to Thissen, the combinations of bids involved in the auction were approximately 6 million different options. This was because bidders could submit multiple bids, even with contingencies such as not getting one store or another. The only way National Franchise Sales could keep track of all the bids and bid combinations was because of a proprietary auction program they recently developed.

On the second day of bidding, the rules tightened for bidders. Bids had to be submitted in a way that the estate would benefit, and unusual carve outs and contingencies were prohibited. "On the first day you had the smaller bidders trying to cherry pick certain stores, but once the numbers got up there, the big guns came out," said Thissen.

Bidding became more aggressive that afternoon, back and forth between Yadav and Nematzadeh, so that at one point National Franchise Sales made the decision to raise the minimum incremental bid amount to \$200,000. The most spirited bidding action was for the Sacramento locations, and Yadav and Nematzadeh began forming coalitions and discussing potential store trades with some of the other bidders. Finally, Yadav outbid Nematzadeh on Sacramento and Nematzadeh outbid Yadav on Fresno and Chico.

Once the bidding ended, the final numbers ran up to \$39 million. Yadav ended up with the 31 Sacramento restaurants for \$18 million. Nematzadeh agreed to pay \$19.9 million for 31 restaurants around Fresno and Chico, CA. Two other bidders lined up the remaining four stores for \$1,100,000.

The average price of the auctioned restaurants was approximately \$591,000, about the same as Jack in the Box has been getting in their recent refranchising efforts.

Some Jack in the Box franchisees intimated that Yadav and Nematzadeh got too caught up in the bidding war and paid too much. An estimate of the store valuation based on EBITDA is difficult to determine because of the big decline in Jack in the Box sales over the past year. Based on store-level EBITDA from 2008, the multiple using a \$39 million price tag was under four times cash flow. But EBITDA was going down due to declining sales, so we estimate the multiple in the end to be approximately five times EBITDA. If Yadav and Nematzadeh can improve on the results and get the cash flows back to 2008 levels, they got a good deal at that price.

The trustee, Beverly McFarland, was ecstatic over the success of the auction and the performance of National Franchise Sales. The preliminary stalking horse bid had increased by \$12 million and the buyers ended up being the same parties. Jack in the Box was probably happy, as well, with the drama almost over, and experienced franchisees at the helm of Alizadeh's stores.

"National Franchise Sales did an outstanding job managing this complicated process. I have nothing but the utmost respect for their team of professionals," said McFarland.

*For more information about National Franchise Sales, contact Jerry Thissen, CEO, at (949) 428-0480 ext. 101.*