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## Fastest-Shrinking Restaurant Chains

Tom Van Riper, 02.17.10, 9:30 AM ET

The economy may be thawing, but many families' budgets are still tight. Eating out still means McDonald's or coffee and a bagel at the corner store more than anything else.

That means a squeeze for casual dining chains, those in-between eateries that attract lower- and middle-income families who don't have a table waiting for them at a fancy white tablecloth restaurant but like to occasionally treat themselves to more than fast food. When the economy is rolling, \$8 to \$20 entrées are enticing. When money is tight, not so much.

Casual dining is "one of the most impacted segments," says Keith Gellman, who tracks the casual dining industry for [restaurantchains.net](http://restaurantchains.net).

### In Pictures: Fastest-Shrinking Restaurant Chains

Their operations are expensive. Casual dining chains require more dining and kitchen space than fast-food joints, not to mention more people to cook and serve food. At the same time, they lack the premium prices that upscale restaurants use to generate larger margins per table. Caught in between, the Bertucci's and Country Kitchens of the world rely on volume--tough to draw consistently during a recession.

"Suddenly these places with big space and big staffs have to cut prices," says Gellman.

Same-store sales across the casual dining chains have declined for four years running, a sign that the industry is way overbuilt. Yet few companies are closing restaurants in significant numbers. Larger chains figure they've got enough assets to ride out a downturn in business.

IHOP, which changed its name to DineEquity after buying the Applebee's chain in late 2007, has maintained about 2,000 Applebee's and 1,400 IHOP units despite a significant sales slump. The two brands combined for \$333.5 million in revenue for the quarter that ended Sept. 30, a 14.7% drop from the previous year. Its performance for the first three quarters of 2009 was worse, with revenue off 15.9% to \$1.06 billion. The company is scheduled to announce its December quarter results on March 3.

Industry analyst Lynne Collier of Sterne Agee says landlords desperate to keep tenants in place have bent over backward to restructure leases. "That keeps a lot of restaurants alive longer than they should be," says Collier.

According to data from [restaurantchain.net](http://restaurantchain.net), the chains shuttering the most net units are those with the highest concentrations of franchisees, which tend to get the boot before corporate-owned shops (once a contract with a franchisee is up, it's easy to let them go compared with closing a company-owned store, which can mean breaking a lease and dealing directly with the costs of shuttering the location), and those with menus that gravitate toward the high end of the casual eatery world.

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Black Angus Steak House and Damon's Grill are two relatively expensive chains that are feeling the challenge to keep customers coming. Others shutting down a high percentage of units are regional chains like Casa Ole, a Houston-based Mexican food specialist, and Country Kitchen, a meat and potatoes chain headquartered in Madison, Wis., that franchises most of its restaurants.

The chain restaurant economy can be most closely tracked in the Midwest--in states like Oklahoma, Kansas and Minnesota--which tend to be the first places chains expand to in good times and where they first shutter units during a downturn. Otherwise, many "think twice before actually closing the stores," says Gellman. "The industry believes it can stick it out, though I don't know if that's true."

Indeed, Collier says investors constantly question why more supply hasn't been taken out of the casual dining market, even as the first few weeks of 2010 showed incremental improvement. Renegotiated leases may save the day for awhile, but greater consolidation is likely around the corner. Nowadays, there's only so much appetite for burgers, fajitas and seafood platters.

**[In Pictures: Fastest-Shrinking Restaurant Chains](#)**